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Politics this week

Apr 14th 2005
From The Economist print edition

Mexico's presidential election

AFP

The mayor of Mexico City, Andrés Manuel López Obrador, threatened a campaign of disobedience after **Mexico's** Congress voted to strip him of his immunity from prosecution over charges arising from a planning dispute. The vote is likely to prevent Mr López, Mexico's most popular politician, from standing in next year's presidential election.

See article

More bad news for **Canada's** minority Liberal government. More than 30 Liberal MPs joined the opposition to vote down a government bill to recognise same-sex marriage, while testimony at an inquiry into Liberal sleaze hurt the party's standing in the opinion polls, prompting speculation that the opposition would force an early election.

See article

Venezuela's government said it would sue *El Nuevo Herald*, a Miami newspaper, for libel. The paper published a report claiming that Venezuela's state oil company paid multi-million dollar commissions to intermediaries for oil sales.

The **Organisation of American States** failed to elect a new secretary-general. After five ballots, the two candidates, Chile's José Miguel Insulza and Mexico's Luis Ernesto Derbez, each received 17 votes. The election will resume on May 2nd, possibly with new candidates.

At its annual meeting, the **Inter-American Development Bank** put off until 2008 consideration of a request by China to become a member. China's economic links with Latin America are growing fast, but Japan and the United States are both reported to oppose its membership.

A British court sentenced Kamel Bourgass, a failed asylum seeker from Algeria, to 17 years in jail for a plot to use **ricin** and other poisons in a terrorist plot. But another four defendants, accused of being part of an al-Qaeda terrorist cell, were acquitted. And the court heard that no ricin had actually been made.

Undiplomatic

John Bolton, George Bush's choice as ambassador to the United Nations, was quizzed by the Senate Foreign Relations Committee about hostile remarks he had made about the UN and about his conduct as an under-secretary at the State Department.

See article

California's governor, Arnold Schwarzenegger, withdrew his plan to reform the state's public-pensions system; he will refine his plan with the legislature and public-sector workers, who bitterly opposed the reforms.

See article

The House of Representatives voted to repeal permanently the **estate tax**. The bill now goes to the Senate, where it will have trouble overcoming an expected filibuster.

A federal grand jury in New York indicted three Britons (currently held in Britain) in connection with an alleged plot to attack **financial institutions** in Washington, DC, New York and New Jersey. An intelligence tip-off regarding a possible threat last August led the Department of Homeland Security to raise its warnings in the targeted areas.

Not quite the right reform

The **German government** said it would introduce a federal minimum wage to combat low-cost competition, especially from its eastern neighbours. It is not clear how a minimum wage can help Germany's 5m unemployed.

Germany's chancellor, Gerhard Schröder, joined survivors of **Buchenwald** to mark the 60th anniversary of the liberation of the concentration camp near Weimar. Some 56,000 people died at the hands of the Nazis there.

The European Commission recommended that talks should begin with **Serbia and Montenegro** on a stabilisation and association agreement that could lead to European Union membership.

See article

Stanislav Gross, the **Czech prime minister**, stepped down to make way for a new government.

Members of the **European Parliament** rejected reforms to clamp down on abuses of expenses and allowances. So MEPs will go on claiming reimbursement for bills they have not incurred, hardly a way of making their unloved institution more loved.

The European Commission said that it would initiate action against **Italy** for breaching the stability pact's ceiling for budget deficits of 3% of GDP. The commission predicts that Italy's deficit will be 3.6% in 2005 and 4.6% in 2006.

Not exactly friendly

AP

Chinese demonstrators staged **anti-Japanese protests** in Beijing, Shenzhen and Guangzhou. They oppose Japan's hopes of becoming a permanent member of the UN Security Council, and object to a school textbook that glosses over Japanese wartime atrocities. China also called Japan's decision to issue drilling rights in the East China Sea a “provocation”. In what they called a “historic” meeting, **China and India** pledged to settle a Himalayan border dispute.

See article

Up to 150 pilgrims in **India** were feared drowned in the state of Madhya Pradesh after the gates on an upstream dam to the Narmada river were opened without warning. Around 300,000 Hindus had gathered to bathe in the river ahead of a new moon.

Now govern

AP

After two months of wrangling, an **Iraqi** government began to take shape, after parliament's endorsement of Jalal Talabani, a Kurd, as president and after the nomination of Ibrahim al-Jaafari, a Shia Arab, as prime minister. The main Shia alliance seemed likely to take the ministries of interior, finance and oil; the Kurds are set to oversee foreign affairs, while Sunni Arabs look likely to hold the posts of speaker and minister of defence.

See article

President George Bush told **Israel's** prime minister, Ariel Sharon, who was visiting him at his ranch in Texas, that there should be “no expansion of [Israeli] settlements” in the West Bank. But Mr Sharon did not rule out continuing to build new houses in existing settlements.

See article

The government of **Sudan** and rebels from the south of the country agreed to allow unarmed opposition groups more say in the drafting of a new national constitution that is supposed to unite the war-scarred nation.

Nigeria's president, Olusegun Obasanjo, asked anyone with allegations of corruption against himself or his family to make them public. A member of parliament suggested it would be more useful to audit the petroleum ministry, which Mr Obasanjo heads.

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Business this week

Apr 14th 2005
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Tight-lipped

Maurice “Hank” Greenberg, former chairman and CEO of **AIG**, invoked his constitutional rights by remaining silent at a deposition based on allegations that the insurance group manipulated its financial statements. Warren Buffett also spoke with the regulators (a unit of Mr Buffett's Berkshire Hathaway is central to the investigation) but said he knew little of the transactions.

More turmoil at **Morgan Stanley**, as two of the investment bank's top stars resigned. Pressure is mounting on Philip Purcell, the bank's embattled chief executive, to stem a wave of defections.

Fifteen current and former traders at the **New York Stock Exchange** were indicted on charges that they cheated investors out of $19m by manipulating stocks to enrich their own accounts. The criminal charges follow a two-year investigation by the US attorney's office in Manhattan. The NYSE, in a settlement with the Securities and Exchange Commission, agreed to improve its monitoring of traders.

See article

The trial began in **Equitable Life's** £3.75 billion ($7.1 billion) claim for damages against Ernst & Young, its former auditor, and 15 former directors. Equitable, a British mutually owned assurer, blames the defendants for its near collapse in 2000.

See article

Fortis, a Belgian-Dutch banking and insurance group, said it would acquire **Disbank**, a Turkish bank, in a deal worth *euro*985m ($1.27 billion). The move makes Fortis the largest foreign retail bank in Turkey.

See article

Lazard, an international investment bank with a 157-year pedigree, gave details of its planned IPO. The proceeds will be used to buy out Lazard's chairman Michel David-Weill, whose family founded the bank, and other longstanding owners. Mr David-Weill had a public falling-out with CEO Bruce Wasserstein over the bank's strategy.

See article

Shop till you drop

Tesco, the world's third-biggest retailer, posted a 21% jump in underlying pre-tax profit to £2.0 billion ($3.8 billion) for the year ending February 26th. One-fifth of the British company's sales came from its overseas stores. **Carrefour**, the world's second-biggest retailer, based in France, said first-quarter revenue increased by 5.2%; it too was helped by strong overseas sales. But **KarstadtQuelle**, a troubled German department-store chain, reported a net loss for 2004 of €1.6 billion ($2.0 billion).

See article

Harley-Davidson reported an 11% rise in net profit for the quarter ending March 27th compared with a year ago. But its shares fell as the celebrated motorcycle manufacturer reduced its production and

earnings forecast for 2005 due to flat sales in America.

Apple Computer recorded a 530% increase in net profit for the quarter ended March 26th compared with last year. Revenue rose by 70%. However, Apple's shares fell slightly as investors worried if such growth could continue.

Siebel Systems, a software company based in California, named George Shaheen as its new chief executive. Michael Lawrie stepped down after failing to increase sales; last week the company warned that first-quarter sales would be far short of expectations.

Genentech, a biotechnology company, posted a 61% rise in first-quarter net profit to $284m compared with a year ago. Revenue increased by 50% to $1.46 billion.

Verizon bought a 13.7% stake in **MCI** held by Carlos Slim Helu, a Mexican billionaire and MCI's largest shareholder, for $1.1 billion in an effort to bolster its bid to buy the long-distance telecom operator.

Cold comfort

America's **trade deficit** hit another monthly high of $61.0 billion in February. Some analysts took comfort that the deficit with China narrowed slightly from $15.3 billion in January to $13.9 billion in February—even though this still represented a 67% increase on February 2004.

See article

The International Energy Agency revised down its forecast for the demand for **oil** in 2005, leading the oil price to fall to just above $50, its lowest level for seven weeks.

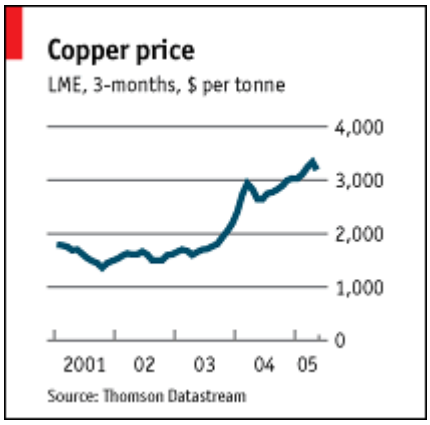
See article

The International Monetary Fund forecast that the world's **economic growth** would slow in 2005 to 4.3% from 5.1% in 2004.

See article

Wired

Copper traders and executives met at the Fourth World Copper Conference in Chile, the world's biggest copper producer accounting for 37% of mine production last year. The primary interest was the metal's price, which hit a record high (for delivery in three months) of $3,338 a tonne this week before falling back. Global supplies are tight, driven by demand from China, which is expected to consume 22% of the world's copper in 2005.



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Simpler taxes

The flat-tax revolution

Apr 14th 2005
From The Economist print edition

Fine in theory, but it will never happen. Oh really?

THE more complicated a country's tax system becomes, the easier it is for governments to make it more complicated still, in an accelerating process of proliferating insanity—until, perhaps, a limit of madness is reached and a spasm of radical simplification is demanded. In 2005, many of the world's rich countries seem far along this curve. The United States, which last simplified its tax code in 1986, and which spent the next two decades feverishly unsimplifying it, may soon be coming to a point of renewed fiscal catharsis. Other rich countries, with a tolerance for tax-code sclerosis even greater than America's, may not be so far behind. Revenue must be raised, of course. But is there no realistic alternative to tax codes which, as they discharge that sad but necessary function, squander resources on an epic scale and grind the spirit of the helpless taxpayer as well?

The answer is yes: there is indeed an alternative, and experience is proving that it is an eminently realistic one. The experiment started in a small way in 1994, when Estonia became the first country in Europe to introduce a “flat tax” on personal and corporate income. Income is taxed at a single uniform rate of 26%: no schedule of rates, no deductions. The economy has flourished. Others followed: first, Latvia and Lithuania, Estonia's Baltic neighbours; later Russia (with a rate of 13% on personal income), then Slovakia (19% on personal and corporate income). One of Poland's centre-right opposition parties is campaigning for a similar code (with a rate of 15%). So far eight countries have followed Estonia's example (see article). An old idea that for decades elicited the response, “Fine in theory, just not practical in the real world,” seems to be working as well in practice as it does on the blackboard.

Pure and applied

Practical types who said that flat taxes cannot work offer a further instant objection, once they are shown such taxes working—namely, that they are unfair. Enlightened countries, it is argued, have “progressive” tax systems, requiring the rich to forfeit a bigger share of their incomes in tax than the poor are called upon to pay. A flat tax seems to rule this out in principle.

Not so. A flat tax on personal incomes combines a threshold (that is, an exempt amount) with a single rate of tax on all income above it. The progressivity of such a system can be varied within wide limits using just these two variables. Under systems such as America's, or those operating in most of western Europe, the incentives for the rich to avoid tax (legally or otherwise) are enormous; and the

opportunities to do so, which arise from the very complexity of the codes, are commensurately large. So it is unsurprising to discover, as experience suggests, that the rich usually pay about as much tax under a flat-tax regime as they do under an orthodox code.

So much for the two main objections. What then are the advantages of being very simple-minded when it comes to tax? Simplicity of course is a boon in its own right. The costs merely of administering a conventionally clotted tax system are outrageous. Estimates for the United States, whose tax regime, despite the best efforts of Congress, is by no means the world's most burdensome, put the costs of compliance, administration and enforcement between 10% and 20% of revenue collected. (That sum, by the way, is equivalent to between one-quarter and one-half of the government's budget deficit.)

Though it is impossible to be precise, that direct burden is almost certainly as nothing compared with the broader economic costs caused by the government's interfering so pervasively in the allocation of resources. A pathological optimist, or somebody nostalgic for Soviet central planning, might argue that the whole point of the myriad breaks, deductions, allowances, concessions, reliefs and assorted other tax expenditures that clog rich countries' tax systems—requiring total revenues to be gathered from a narrower base of taxpayers at correspondingly higher and more distorting rates—is to improve economic efficiency. The whole idea, you see, is to allocate resources more intelligently. Yes, well. Take a look at the current United States tax code, or just at one session of Congress's worth of tax-gifts to favourite constituencies, and try to keep a straight face while saying that.

They cannot be serious

Once tax codes have degenerated to the extent they have in most rich countries, laden with so many breaks and exceptions that they retain nothing of their original shape, even the pretence of any interior logic can be dispensed with. No tax break is too narrow, too squalid, too funny, to be excluded on those grounds: everybody is at it, so why not join in? At the other extreme, the simpler the system, the more such manoeuvres offend, and the easier it is to retain the simplicity.

In Britain, election notwithstanding, tax simplification is nowhere on the agenda: why not? George Bush has at least appointed a commission to look into tax reform. But its terms of reference are so narrow that it could not suggest a flat tax even if it wanted to. This is a great pity. A flat tax would not eliminate the need for spending control; it would not deal with the impending financial distress of Social Security and Medicare; it would not even settle the arguments about the so-called consumption tax (since in principle a flat tax could take as its base either all income, or income net of savings, in which case it would act as a consumption tax). There are things it cannot do and questions it does not answer. But the gains from a radical simplification of the tax system would be very great. The possibility should not be excluded at the outset.

It is true that the flat-tax revolutionaries of central and eastern Europe are more inclined to radicalism than their politically maturer neighbours to the west and across the Atlantic. Mobilising support for sensible change is far harder in those more advanced places—but not impossible. In tax reform, as 1986 showed, the radical programme can suddenly look easier to implement than the timid package of piecemeal changes. Now and then, the bigger the idea, and the simpler the idea, the easier it is to roll over the opposition. The flat-tax idea is big enough and simple enough to be worth taking seriously.

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Iraq's government

Step by step

Apr 14th 2005
From The Economist print edition

Iraq's new rulers should get a move on—but democracy won't be built overnight

AFP

AFTER months of wrangling, a promising new Iraqi government is emerging—with a chance of containing if not squelching the insurgency and so pointing the way towards a prosperous and tolerant democracy. For the first time in modern history, a representative of an oppressed minority, the Kurds, has become a majority-Arab country's head of state (see article). There are other hopeful signs. Deaths of American soldiers have dropped to their lowest rate for nearly two years. Perhaps most important of all, a growing number of influential Sunni clergymen, who told Iraqis to boycott the general election in January that brought in the new parliament, are now urging their co-religionists to join Iraq's fledgling army and police rather than help insurgents to kill their members.

So has the yearned-for turning-point been reached, at which a more or less legitimate government has begun to roll back the insurgency, allowing Iraq's broken economy to start recovering in earnest, thus in turn persuading the bulk of Iraq's people to rally behind the new order, and so, in the end, validating the Americans' bitterly contentious invasion?

Not yet. Iraq is still a very dangerous and unpredictable place. The Sunni triangle around Baghdad remains in sullen revolt; its people, who had the main say under Saddam Hussein though they make up only a fifth of Iraq's population, have yet to be convinced that they will have a fair deal. Even Iraq's southern and central parts, where the Shia majority holds sway, are not yet safe enough for normal economic life, with foreign investment, to resume. Supplies of oil and electricity are still running at less than they were a year ago. The IMF says that 60% of Iraqis are living on food handouts. Less than a quarter of the $18.4 billion dollars promised by the Americans for rebuilding the country has been disbursed—because of the rebels. Moreover, a three-way fragmentation, even civil war, is still possible. The wrangling over a new government's formation displayed all the tensions between Kurds and Shia Arabs, and between secular-minded and Islamist Shias, let alone the resentful Sunni Arabs.

But this is what democracy is bound to be about, in a multi-ethnic, multi-confessional, artificially constructed, war-and-dictator-blighted country: the recent progress is extraordinary and, for the most part, uplifting. The hope, still, is that Iraq's main components will see more benefit in sticking together than breaking asunder. Jalal Talabani, the Kurd who is now president, eloquently and—it seems—

sincerely says so.

Not over till it's over

He has also, rightly, said that foreign troops, mainly American, should not leave too soon—probably not for a couple of years, all being well. The key, plainly, is to beef up Iraqi forces so that they, not the resented foreign occupier, squash the insurgents. But it is a grindingly slow process, and the Iraqis are far from ready to hold the fort on their own. It is shameful, meanwhile, that Poles and others in the coalition are scuttling or wobbling. It is a fine judgment whether the presence of foreign troops will, in the end, help or hinder the new regime to persuade the recalcitrants that Iraqis have become masters of their own destiny and so should stop fighting. The trend in the battle for hearts and minds is tentatively moving the right way. But the time for a rapid exit has certainly not yet arrived—and will not do so until, sadly, more blood, of Americans as well as Iraqis, has been spilt in this cause.

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World economy

A call to action

Apr 14th 2005
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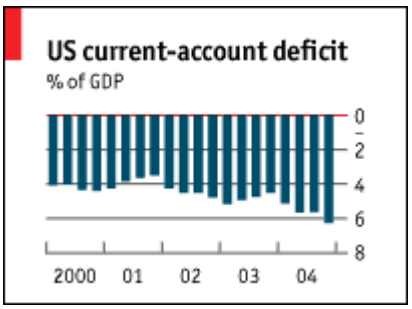
Unless politicians stop talking and start acting, the world economy is heading for trouble



"CIRCUMSTANCES seem to me as dangerous and intractable as any I can remember, and I can remember quite a lot." That sombre assessment of the world economy came from Paul Volcker, chairman of America's Federal Reserve between 1979 and 1987, writing recently in the *Washington Post*. "What really concerns me", he went on, "is that there seems to be so little willingness or capacity to do much about it."

Coming from one of the giants of American economic policy-making, the man who vanquished the high inflation of the late 1970s and helped navigate the global economy through the 1980s debt crises, that is a pointed admonition. The finance ministers and central bankers, who gather this weekend in Washington, DC, for the spring meetings of the International Monetary Fund and World Bank, would do well to take it seriously. For beneath a veneer of resilience, the world economy is becoming increasingly fragile.

Judging by their public statements, many policymakers are worried most about the price of oil (see article). Although prices of crude have eased in recent days, they are still above $50 a barrel, more than 70% higher in real terms than in the summer of 2003. Though substantially smaller than the "oil shocks" of the 1970s, that is still a big jump.

Thus far, however, there seems little reason to panic. Indeed, in 2004 global output grew at over 5%, its fastest pace in a generation. In its latest World Economic Outlook, released on April 13th, the IMF forecasts growth of 4.3% in world output for 2005, slower than last year but still above trend. The new oil shock has neither had a dramatic effect on inflation expectations nor precipitated a dangerous wage-price spiral, even though global monetary conditions remain extraordinarily loose. All this could change if the oil price stays at its current levels for long or rises yet further. At some point, higher oil prices will bite hard. But, for now, the oil price is not the world's most pressing economic problem.

That distinction goes to the imbalanced nature of the global economy. The world as a whole may be growing pretty robustly, but the aggregate growth rates mask a big and growing divergence between places that are booming and those that are lagging behind. America and China lead the boomers: in both cases growth has consistently been stronger than expected. Continental Europe and Japan, in contrast, are falling ever further back. Japan's recovery stalled in the second half of 2004 and there are only modest signs of a turnaround. The IMF's economists expect Japan's GDP growth to be a mere 0.8% in 2005. The outlook for the euro zone's big economies is similarly bleak, with unemployment high and domestic demand low. Like most other economists, the IMF's number crunchers have scaled back their euro-zone growth projections to a mere 1.6% for this year.

The result of this increasingly lopsided growth is that the imbalances in the global economy—in particular, America's huge external deficits—are growing ever bigger. In the last three months of 2004, the country's current-account deficit was running at 6.3% of GDP. Judging by the latest monthly trade figures—a $61 billion deficit for February—it is heading higher fast. Serious observers are now talking about a current-account deficit of well over 7% of GDP by the end of 2005.

High oil prices have aggravated and complicated these imbalances. They have dampened already weak domestic demand in Europe. They have added to America's import bill. And they have created a new class of big surplus countries: thanks to the oil boom, last year's external surpluses in oil-producing countries were about the same size as those of Asia's emerging economies. But oil prices are not the

cause of global imbalances. That remains the world's over-reliance on American consumers as an engine for growth.

Every finance minister in Washington this weekend knows this very well. Equally well-known is the route to more balanced global growth. At each of their recent gatherings, the world's economic policymakers have repeated a “to-do” list: raise savings in America, particularly by cutting the budget deficit; boost Europe's growth potential through structural reforms; and shift East Asia away from its addiction to exports through exchange-rate adjustment, particularly in China.

Words into actions

The problem, as Mr Volcker puts it, is that no one seems willing to act. For all the talk, China has shown no inclination to adjust its currency peg. In the euro-zone, momentum seems to be shifting away from economic reform. For instance, this week Germany's government was proposing the introduction of a particularly pernicious type of minimum wage, despite jobless rates not seen since the 1940s. In America, meanwhile, fiscal discipline is a farce. Far from thinking hard about how to cut deficits, the House of Representatives on April 13th passed a bill eliminating inheritance taxes.

The world's finance ministers should stop this drift and start serious efforts to unwind the lopsided global economy. They are much more likely to wring their hands about the oil price and leave it at that. Such a response just will not do.

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China, Japan and the UN

A collision in East Asia

Apr 14th 2005
From The Economist print edition

There should be no enlarged Security Council without Japan

AP

YOU can be sure that a march of 10,000 protesters through the heart of Beijing would have been halted by China's security services if they had been marching for democracy. Since they were marching instead to denounce Japan, for its supposed failure to apologise for historical crimes, and for its temerity in seeking permanent membership of the United Nations Security Council, China's authorities allowed the demonstration to go ahead, with predictable results (see article). Japanese shops were ransacked and Japan's embassy pelted with eggs and stones. The protests, which had started in Chengdu a week earlier, spread to other cities, including Shenzhen and Guangzhou in the prosperous south.

For anyone who had taken the view that the present proposals to reform the United Nations and change the architecture of the Security Council were just a parlour game for diplomats, these demonstrations mark a rude awakening. All of the council's permanent five—America, Britain, China, France and Russia—guard their seats at the top table jealously and are wary about the prospect of this honour being diluted. Some, it is now plain, are willing to whip up the emotions of their people to resist unwanted newcomers. And when it comes to China and Japan, those emotions are still remarkably raw.

It is not much of an exaggeration to say that these two Asian giants are scarcely any better reconciled than they were in 1972, when they established diplomatic relations. This is true in spite of an economic relationship that has grown increasingly intimate. In most years, China and Japan are nowadays each other's biggest trading partner. Some 16,000 Japanese firms do business on the Chinese mainland: Japan's technology and China's low-paid workers make a natural and mutually advantageous fit. In culture and consumption, too, the two countries are growing closer: younger Chinese admire Japanese boy-bands, older ones relish buying reliable Japanese cars and applying Japanese cosmetics.

In politics, however, the story is quite different. The mighty neighbours are competing for natural resources and squabbling over the sovereignty of tiny islands. In service of its present interests, China endlessly drags up the legacy of the past, taking the view that Japan has never apologised properly for its brutal behaviour in China during the second world war and before. No Chinese president has visited Japan since 1998, and Japan's prime minister has not been to China since 2001.

If anything, relations have in fact grown worse. In previous decades the wounds of war were no less deep but the neighbours enjoyed a sort of understanding about their respective places in the world.

China was a heavyweight in geopolitics but an economic weakling. Japan was the opposite: an economic superpower, barred by its own constitution and historical guilt from playing any significant role in world affairs. But this division of labelling has been breaking down.

China is on the way to becoming an economic superpower: today it is China and no longer Japan that runs the world's biggest trade surplus with the United States. And Japan, which still has the world's second-largest economy, is no longer willing to be a second-class citizen in diplomacy. As a populous and rich democracy, a big contributor of foreign aid, the second-biggest contributor after America to the United Nations, and (within the limits imposed by its post-war constitution, which it has been flexible in reinterpreting) an increasingly active international peacekeeper, it believes it deserves a permanent seat in any enlarged Security Council.

And it is right. The UN's current archaic system gives permanent seats, and vetoes, to five countries and condemns everyone else, no matter how regionally powerful or active in international security, to an occasional two-year term. If permanent membership of the council is to be enlarged, as Kofi Annan, the UN's secretary-general, says he would like it to be, Japan (along with India and Brazil) is a natural candidate by dint of population, standing and economic power. Germany has a strong case, too, though one complicated by the fact that the European Union would then have three permanent members. A case can also be made for a large African country such as South Africa or Nigeria, and perhaps an Arab one, such as Egypt. But what is absolutely plain is that to add India, Brazil, Nigeria, South Africa or Egypt but to exclude Japan would not only constitute an egregious insult to the Japanese but also make a nonsense of the whole exercise.

Don't call the whole thing off

In which case, should the exercise be abandoned? That might be convenient to some. Countries such as Italy and Pakistan, dismayed by the prospect of neighbours and rivals taking places at the top table, are already complaining. Although America pays lip service to enlargement, it might welcome an excuse to stick with the present system—and China's exclusion of Japan would certainly provide one. But what a pity that would be. The UN system will never be perfect, but it can be improved to reflect the world more as it is today, not as it was at the end of the second world war more than half a century ago. The Japanese belong in an enlarged Security Council—not least so the Chinese come to understand that they cannot have everything their way in East Asia's future.

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Mexico's presidential election

How not to defeat an awkward candidate

Apr 14th 2005
From The Economist print edition

A big step backward for a still-uncertain democracy

AP

IT IS a basic principle of a presidential democracy that voters should be free to choose whomsoever they wish to exercise government authority. It is a similar axiom of democracy that politicians should be subject to the rule of law. But what happens when these two principles appear to collide?

That is the dilemma with which, ostensibly, Mexico has been grappling. On April 7th, the country's Congress resolved it by voting to lift the immunity from prosecution granted by virtue of his office to Andrés Manuel López Obrador, the mayor of Mexico City. As a result, any day now Mr López will be arrested to face charges of contempt of court arising from a planning dispute. According to both President Vicente Fox and his main opposition, the formerly ruling Institutional Revolutionary Party (PRI), this is a victory for the rule of law.

Yet that is not the way that it looks to most Mexicans. For much of the past two years, Mr López, a populist from the left-of-centre Party of the Democratic Revolution (PRD), has topped opinion polls for a presidential election due in July 2006. But should he be convicted—or should charges still be pending in January—he would be barred from standing. To the mayor's supporters his treatment is a crude stitch-up, all too reminiscent of the rigged political system that Mexico claimed to have left behind in 2000 when Mr Fox won the presidency, ending seven decades of rule by the PRI.

Who is right? To reach a judgment on this requires a journey down the byways of the planning dispute. This began in 1993 when the city government sold 16 acres of land to a private health-care company for a hospital to serve a poor area in the west of Mexico City. The city council agreed to build an access road to the hospital on an adjoining plot. Having failed to agree a price with the plot's owner, Mr López's predecessor issued a compulsory-purchase order and began to build the road. In 2001, a judge ordered construction to stop, pending an appeal by the owner. Construction was halted, but only after 11 months. That prompted Mexico's attorney-general to open the contempt of court proceedings that led to last week's vote.

Certainly Mr López has a history of acting in a high-handed manner. Even so, Congress's decision has questionable aspects. First and foremost, the punishment is out of all proportion to the alleged crime.

The land dispute itself is a matter of civil law, and many of the decisions may have been taken by junior officials. Yet the mayor now faces criminal proceedings—presumably because that is the only way to block his candidacy. Second, those proceedings have been initiated by a partisan politician, the attorney-general.

Third, when it comes to enforcing the rule of law at the expense of political considerations, Mexico has been less than zealous. In 1970, Luis Echeverría was elected president two years after hundreds of unarmed students were massacred by government agents when he was interior minister. Recent attempts to prosecute Mr Echeverría have got nowhere. After the 2000 election, both Mr Fox and his opponent from the PRI were accused of violating campaign-finance laws; the only punishment has been fines against their parties.

To be sure, when it comes to subjecting politicians to the letter of the law, Mexico must start somewhere. Yet starting with Mr López has serious implications for the country's still-uncertain democracy. Once before, the left was excluded from power in Mexico by questionable means. In 1988, the electoral authority's computer mysteriously broke down when the PRD's candidate was leading Carlos Salinas of the PRI, who was then declared president. During Mr Salinas's presidency, several hundred members of the PRD were murdered.

Latin America's turn to democracy in the past two decades has at last allowed the left to take power by peaceful means. That has helped to break the cycle of political violence which dogged the region, produced a healthy alternation of power, and directed attention to deep-rooted social problems. In some cases, it has also brought bad government. In Venezuela, for example, Hugo Chávez has undermined his country's democratic institutions and its economy. But left-wingers have no monopoly on elected autocracy, as Alberto Fujimori showed in Peru in the 1990s. And even if Mr López were “another Chávez”, as some fear, Mexico is not Venezuela: like Mr Fox, he would almost certainly lack a congressional majority.

Mr López's record is ambiguous (see article). His defenders point to his driving energy and can-do pragmatism. His detractors see an unscrupulous opportunist of overweening ambition who is disrespectful of independent institutions. Even if the critics are right, the place to defeat the mayor is at the ballot box. So far, Congress's action has merely increased sympathy for its victim. By depriving the voters of a free choice, Mexico's politicians have cast a cloud of uncertainty over democracy and a question over their country's hard-won economic stability. For the sake of both, Mr López at least deserves a swift and fair trial.

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MG Rover

Greed and cowardice

Apr 14th 2005
From The Economist print edition

Political cowardice not individual greed is responsible for MG Rover's demise

AFP

WHEN things go wrong, it is comforting to pin the blame on bad men. To do so implies that the world is a kind, gentle place and that if it weren't for a few nasty, selfish types we would all be happy.

That is how the failure of MG Rover, a once-grand car company which has gone into receivership after four decades of decline, is widely seen in Britain. The last chapter of this sorry story involved its purchase in 2000 for £10 ($15) from BMW by a group called Phoenix which failed to reignite a spark from the giant's ashes. The four men behind Phoenix did rather nicely, giving themselves a £10m loan note and a £16.5m pension fund, and their “greed” has therefore become the focus for public anger at the company's demise. Gordon Brown, the chancellor, has promised “inquiries” into what went on in the company.

The idea that these wicked individuals are responsible for what's gone wrong may be comforting, but it is also dangerous. It allows people to avoid pinning the blame where it really belongs—on the laws of economics, which dictate that medium-sized car companies are doomed, and on the government, whose cowardly intervention five years ago damaged the interests of the workers it said it was trying to protect.

Road kill

The world's car industry is not a kind and gentle place right now. It has the capacity to produce around 80m cars and other light vehicles, but production is currently running at only around 60m. Most of the excess capacity is in Europe and North America, where costs are higher and sales growing more slowly than they are in Asia. Within the past fortnight both GM and Ford have issued profits warnings. If life is tough for them, it is harder still for a mid-sized company like MG Rover, which has neither the volume of the giants, nor the margins of a niche player, to sustain it.

Rover, the remains of what was once the third-biggest car producer in the world (a thought which should chill GM and Ford), is a classic victim of industrial policy. British Leyland was put together in 1968 by Harold Wilson's industrial planners, nationalised in 1975, sold for peanuts to British Aerospace in 1988, which then split the company up and flogged Rover to BMW in 1994. Five years ago, BMW admitted defeat and (while holding on to the Mini, which has turned into a roaring success, as well as the best

engine-making plant) put the company on the market.

Two parties were interested. One, Alchemy, a private equity group, offered to buy Rover and shrink it into a niche maker of MG sports cars. Some 20% of jobs would have survived. Workers who were laid off would have got £50,000 each. The other, Phoenix, had no clear plan but promised to save more jobs. The government initially backed Alchemy, but after 80,000 demonstrators marched through Birmingham protesting at the prospect of heavy job losses, the government switched sides and supported Phoenix. Alchemy, put off by the combined hostility of politicians and workers, walked away and Phoenix got the company, along with a £427m interest-free loan from BMW to take the problem off its hands.

Nobody sensible at the time thought Phoenix had a chance of saving the company. Now that the inevitable has happened, the only parties to have profited from the government's intervention are the men behind Phoenix and the Chinese companies to whom they sold the bits of the company that were worth anything (see article).

Given what a mess the government has made of MG Rover so far, it might have the grace to stop pretending it can save the firm. But, despite half a century of failed industrial policy, the belief that it should be able to do something persists; and, with an election three weeks away, it is unlikely to try to disabuse voters of this idea. So the workers' families march on Downing Street, and the government coughs up £6.5m a week to keep the company, and the dangerous notion that intervention is likely to be helpful rather than harmful, alive.

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Letters

Apr 14th 2005
From Economist.com

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Turkey and Europe

SIR – You refer to a "Greek-speaking part" of Cyprus and imply that only the government-controlled area of the Republic of Cyprus acceded to the European Union (Survey of Turkey, March 19th). As a matter of fact, it was the internationally recognised Republic of Cyprus that became a member of the EU on May 1st 2004 and whose territory is the whole area of Cyprus, excluding the 99 square miles covered by the British sovereign base areas. The only qualification to this otherwise straightforward accession is that the *acquis communautaire* has been suspended in the area of the Republic of Cyprus that is not under the control, at present, of the government of the Republic of Cyprus (namely the Turkish-occupied area, which amounts to 37% of the territory of the Republic of Cyprus). This suspension, it should be pointed out, is territorial and does not affect in any way the rights, under EU law, of legitimate Turkish Cypriots, who are citizens of the Republic of Cyprus and by consequence EU citizens.

Petros Eftychiou
Cyprus High Commissioner
London

SIR – You use the word "Islamist" to describe Turkey's ruling AK Party. The word "Islamist" is as to "Muslim" as "Feminist" is to "Woman"—not just a member of the group but one that promotes a radical agenda within it. The AK Party promotes secularism while maintaining some Islamic principles. It can be described as Muslim at a stretch, but to call the party (which is actively seeking membership of the European Union) Islamist is a harsh indictment.

Leonard Audaer
Bradford, West Yorkshire

SIR – The map of Turkey in your survey shows as a "Kurdish area" land where once Armenians lived. Perhaps because of the passage of time and an active propaganda effort by Turkey's government, the negation of the Armenian genocide by Turkey is not perceived as the morally reprehensible act it continues to be. Accepting Turkey in its current form into the EU would be tantamount to accepting an unapologetic Germany after the second world war into the fold. By glancing over the subject, you encourage societies to avoid the unpleasant lessons that history must teach.

Alan Hairabedian
New York

Down on the farm

SIR – Your article on OECD farm subsidies admirably captures the dilemma confronting poor countries that are net food importers ("Punch-up over handouts", March 26th). In the short-run, the removal of OECD subsidies would indeed raise import costs. But your story misses the dynamics of the process. Up until the late 1970s, for instance, Africa was a net exporter of food and agricultural products. The deficits opened up in the 1980s and 1990s after African governments liberalised their trade regimes, under considerable pressure from the Bretton Woods institutions. They pursued this policy despite the threat of competition from massively subsidised OECD farm exports. Far from saving African countries, OECD policy has contributed to undermining the continent's agricultural production in a very damaging way. To

say that agricultural subsidies in the OECD help poor developing countries is akin to saying heroin helps a drug addict.

Andrew Mold
United Nations Economic Commission for Africa
Addis Ababa, Ethiopia

Acting as one?

SIR – You say that it is still not ensured that the United Nations would intervene in a future Darfur if it embraces a collective "responsibility to protect" rule ("Kofi Annan's reform plan", March 26th). Moreover, you essentially measure the success of the UN on whether it can create new rules that all states will obey. The real measure of success should be whether these changes will save future lives. The "responsibility to protect" is a collective affirmation that sovereignty does not mean non-interference when the state conducts or allows violent acts against their people. Under the existing UN system, there is no recognition of a right of the international community to intervene to protect against genocide or grave human-rights abuses. The significance of this shift, from sovereignty trumping action to protection trumping sovereignty, is vastly underestimated—the changes proposed by Mr Annan do offer hope for preventing a future Darfur.

Nicole Deller
New York

Statistical clarity

SIR – National accounting experts at the Office for National Statistics gave rigorous consideration to the issues raised by the double-counting of road maintenance expenditure in the public finances and before that whether Network Rail should be classified as part of the private sector ("The numbers game", March 26th). ONS then provided comprehensive reasoning behind its decisions, which meet standards set by the European Union and the International Monetary Fund. Complete transparency is required by the National Statistics Code of Practice, which I put in place to safeguard issues of governance and integrity. Supporting documentation is published on the National Statistics website so that all can see the arguments for and against.

I do not see how there can be any shadow of doubt that we have arrived at our decisions properly and independently, on good statistical grounds. In the face of all this evidence, it is disappointing that you still believe that ONS is "struggling to explain" these decisions and has somehow succumbed to political interference. Our practices for making complex classification decisions are more exacting and transparent than those of most countries, and your analysis is therefore quite wrong.

Len Cook
Office for National Statistics
London

Circumventing Columbus

SIR – While reviewing Thomas Friedman's "The World is Flat", you perpetuate the myth that Columbus's voyage had something to do with refuting the flat-earth hypothesis ("Confusing Columbus", April 2nd). Almost nobody in 1492 thought the world was flat. The dispute between Columbus and his opponents was over the size of the globe, which Columbus seriously underestimated.

Paul Michelson
Huntington, Indiana

SIR – You say that "Proof that the world is round came only in 1522". The earth has been known to be round since ancient times. Around 240-230 BC, Eratosthenes calculated that its diameter was 7,850 miles, a figure which differs only slightly from today's modern calculations.

Steven Augart
Winchester, Massachusetts

Lies, damn lies

SIR – Please don't condemn the tool of cost-benefit analysis because of the dishonesty of politicians and their toadies ("The regulators' best friend?", April 2nd). There is nothing inherently wrong with the technique of cost-benefit analysis. The problem comes when it is used as camouflage for hiding what are essentially political decisions. As the old adage goes: "Figures don't lie, but liars sure do figure".

Jim Bennett

ONLINE ARTICLES

The following correspondence refers to articles published only online

Japan and its neighbours

SIR - You state that Japan has apologised for its brutal occupation of China "no less than 17 times" ("History that still hurts", Economist.com, April 8th). However, it is my understanding that while Japan has expressed its "regret" for the massacres, tortures, rapes and human experimentation using biological weapons, it has to date, after so many years, still refused to say "sorry".

While the difference between regret and a true apology may seem to be simply a nuance, it should be noted that, for example, I may regret the poor journalism of an article, but it does not mean that I am sorry or culpable in any way for it.

Edmond T. Wong

America's deficits

SIR - Your article "A dangerous codependence" (Economist.com, April 6th) did not give readers the entire picture. Those economies that are experiencing decent growth, such as America, run current-account deficits. Countries with economies that are shrinking or treading water, such as Germany and Japan, have some of the largest current-account surpluses. If the United States is experiencing good growth and is the largest economy in the world, why would we expect it to be doing anything other than running a large current-account deficit?

That is not to say this situation isn't a problem. But the sky is not falling: there's just a good chance of rain.

Allen Graetz
Clearwater, Florida

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Economist.com SPECIAL
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Nepal

Himalayan horrors

Apr 14th 2005 | BAGLUNG, KATMANDU, POKHARA
From The Economist print edition

Reuters

China and India are boasting this week of a strategic partnership. But Nepal, sandwiched between them, continues its slide into chaos

THINGS are bad enough. A brutal nine-year war between the royal government and Maoist insurgents has already claimed 11,200 lives. Maoists block roads, press-gang youngsters, extort money and exercise a remote-control reign of terror over much of the countryside. Yet many Nepalis are just as afraid of the royal army, and since February 1st, when King Gyanendra seized absolute power and imposed a state of emergency, fundamental freedoms—of expression, assembly and movement—have been suspended.

Yet the fear behind a flurry of foreign interest in Nepal is that things could get much worse. A statement last month from the United Nations, the European Union and nine aid agencies said Nepal was being pushed “toward the abyss of humanitarian crisis”. Disruption to the distribution of vitamin A, deworming pills and vaccines could lead to the deaths of thousands of children. The Maoists are increasingly unpopular, and may feel obliged to step up their terror. Unfettered by constitutional oversight, the army may respond in kind. The military stalemate, which has left most of the country with no effective administration, could drag on for years. Neighbouring India, facing a widespread, if low-level, Maoist insurgency of its own, has special reason to worry.

Nepal's troubles have not come suddenly. Rather they crept over the country by stealth, so that the outside world, and even many in the insulated comfort of Katmandu, seem scarcely to have noticed, until it is almost too late to stem the slide. Twice in recent years, however, Nepal has thrust itself into the international headlines, not for the catastrophe that is taking place in its villages, but because of high drama in the royal palace in Katmandu.

On June 1st, 2001, the then king, Birendra, who had ceded much of the monarchy's power in favour of a multi-party democracy in 1990, was shot dead in the palace, along with nine relations. The murderer was apparently his son, the crown prince Dipendra, who was drunk, on drugs and in love with a woman his mother regarded as beyond the pale. Dipendra also shot himself, and died after reigning for two days in a coma. His uncle, Gyanendra, out of town at the time, became king.

The second act took place on February 1st this year. Gyanendra, having in October 2002 sacked the elected government, and then ruled through a succession of appointed ones, took power himself. It was, in effect, a well-executed coup against his own government: within hours all potential protest leaders, including the prime minister, Sher Bahadur Deuba, were in detention or under house arrest. Other politicians and activists were under “Katmandu arrest”—one was even stopped from boarding a flight to a seminar he was conducting for the army. Fixed phone lines were cut for a week, mobile connections for more than two months. The army moved into newspaper offices and television studios. Now, censorship is less sweeping than in the early days of the coup. But there are still no news bulletins on FM radio, the nation's main source of information. For many Nepalis, short-wave broadcasts from the BBC's Nepali service are all that is left.

These tactics—and the vigilance of the army and police in preventing street protests—succeeded in making the coup almost bloodless. But the ease with which the king took power also reflected the frustration many felt with the political parties who were the victims of the coup. Incompetent, self-serving and venal, they had bickered and blundered while the country went to hell. Had their leaders been able to take to the streets, many Nepalis would have seen their cause as worth the risk of a cracked skull. Even one of the biggest reported protests on February 1st, at Tribhuvan University in the town of Pokhara, was quite small, involving only 150-200 out of 12,000 students.

Hundreds have been arrested, however, and even students detained overnight in Pokhara endured torture. The small scale of protests is not a measure of support for the king. In Katmandu and the surrounding valley, the king and the army were given some credit for the fact that shops were open and traffic moving during the blockades the Maoists called for two weeks after the coup, and again this month. (That blockade was lifted on April 13th.) But most of the country has suffered badly. In the town of Baglung, for example, the market would open, at the army's insistence, in the mornings, only to shut in the afternoons for fear of Maoist reprisals. The town ran out of kerosene, and people had to hunt for firewood.

Thrice absolutely wrong

Many Nepalis might tolerate the suspension of some freedoms if the king could offer a realistic prospect of peace. There is, however, little sign that he can. Rather, he seems to have made three gross miscalculations. First, he seems to have mistaken disillusionment with the political parties for support for the monarchy. Brought up in a family that presents its kings as incarnations of a Hindu deity, surrounded by toadies and addicted to being fawned on at “felicitation” ceremonies, he seems unaware of how lukewarm royalist sentiment has become. Many still respect the monarchy, but are suspicious of the king and downright contemptuous or scared of his son Paras, the present crown prince.

The king also seems to have believed that the army can gain a decisive edge in the war. The proclaimed reason for the coup was to free the troops to pursue a more aggressive campaign. Yet their biggest “victory” since the coup—the killing of more than 100 Maoists in Rukum district on April 7th—was a defensive operation. Two days later, in the town of Charikot, a Maoist attack succeeded in freeing 28 Maoist and other prisoners from the local jail.

The army's version of recent history is that after King Gyanendra last declared a state of emergency, in November 2001, and for the first time unleashed its soldiers (as opposed to the police and

AP

paramilitaries) against the Maoists, it forced the rebels to the negotiating table. After the army killed more than 3,000 people in 2002, the bloodiest year of the war, both sides declared a ceasefire in January 2003. The Maoists, say army spokesmen, had a chance to regroup.

A more accurate analysis is that the army's abuses during the last emergency bolstered the Maoists and then sabotaged the peace process. Talks between the Maoists and the government foundered in August 2003, after 21 suspected Maoists and sympathisers, detained by the army in the village of Doramba, were shot dead. Late last year, the Deuba government was trying to reopen peace negotiations. The Maoists rejected the offer, arguing that the government ruled only at the whim of the king and had no power over the army. Now the Maoists are relishing the chance the king has given them to drive a wedge between the two “constitutional forces”—the monarchy and the parties—and, perhaps, to achieve a degree of international recognition. The Maoist leader, Puspa Kamal Dahal, known as Prachanda, responded to the coup with a fierce diatribe against the “fratricidal, genocidal” monarch and an appeal for a united front with the mainstream parties.

Gyanendra offers little hope

Even the army concedes it cannot win militarily. It has about 78,000 soldiers, and is recruiting a further 7,000. It estimates that the Maoists have 5,000-6,000 armed fighters, with a further 15,000-20,000 “militias”, equipped with homemade weapons such as the small bombs they use so lethally. That is plenty to sustain a low-level insurgency. In Indian-administered Kashmir, an estimated 500,000 Indian soldiers and paramilitaries have, in 15 years of warfare, failed to eliminate an insurgency now waged by perhaps 2,000 surviving armed militants.

The coup may actually have weakened the army's fighting capacity. Soldiers have been diverted to other tasks: stopping protests, keeping shops and roads open, and other “emergency” duties. In an alarming hint of desperation, the army in February encouraged mob violence in Kapilvastu district, on the Indian border. As in another district, Dailekh, late last year, there was a local rebellion against the Maoists. In this case, however, the army sponsored a lynch-mob that killed some two dozen people, burned hundreds of houses and, according to Indian officials, caused 10,000-30,000 people to flee across the border. The violence was fed by local resentment at migrants from the hills. It is hard to imagine a more dangerous tactic.

Foreign disapproval

Indian officials believe the army has a new difficulty: it is running out of ammunition. That is a consequence of the king's third blunder: he assumed that, although absolute monarchy is unfashionable these days, foreign countries would forget their democratic platitudes if faced with a straight choice between him and the Maoists. In fact, the three most closely involved foreign powers—India, America and Britain—were furious with the king for ignoring their advice and misleading them about his intentions. India, a huge and influential neighbour, pulled out of a regional summit rather than see its prime minister shake hands with the royal usurper.

Britain and India have suspended military supplies. Indian officials estimate that, without fresh deliveries, the army will exhaust its ammunition in two or three months. The Pakistani ambassador in Katmandu has offered military help, but that seemed more a knee-jerk dig at India than a considered strategy.

Nepal has tried to play its big neighbours off against each other by arousing India's traditional fears of China's growing strategic influence. Just before the coup, Nepal closed a Tibetan refugee welfare office as well as the Katmandu representative office maintained by the Dalai Lama, Tibet's exiled spiritual leader, reviled by China as a “splittist”. On March 17th, it even issued a statement backing China's passage of an “anti-secession” law aimed at Taiwan. China, as is its habit, has refused to comment on Nepal's internal affairs. The country's first high-level friendly visitor after the coup was Li Zhaoxing, China's foreign minister, on March 31st, and the king is to visit China for a regional forum later this month. But China's prime minister, Wen Jiabao, was in Delhi this week (see article) at the end of a tour of South Asia that skipped Nepal. China is unlikely to jeopardise improved relations with India for greater influence in a

failing state where a discarded Chinese ideology is wreaking such havoc.

Foreign aid, which accounts for 70% of Nepal's development spending, will also be dented by the coup. Few countries have scrapped existing projects, but many of these are in danger because of security concerns, and most fresh proposals are on hold. The economy has been badly hit, although businessmen broadly welcomed the royal takeover. Binod Chaudhary, president of the Confederation of Nepalese Industries (CNI), hoped it would help discipline prevail.

Nepal is desperately poor. Its 25m people have an average GDP per head of just $240. On the United Nations Development Programme's human-development index, Nepal comes 140th out of 177 countries. That poverty, entrenched in a vicious caste system, is the tinder lit by the Maoists. Many of the demands in their 40-point manifesto read like the mission statement of an international aid agency: an end to racial, sexual and caste discrimination; land reform; drinking water, roads and electricity for all villages; the promotion of cottage industries.

Last year the CNI held a conference on how to raise Nepal's growth rate to double digits and achieve a monthly income of 10,000 Nepali rupees (about $40) for all. It came up with a simple four-point prescription, relying on existing strengths: increase the number of expatriate workers, whose remittances, especially from the Middle East, are an important source of foreign exchange, from 1m to 3m; sell 25,000 megawatts of hydro-electricity to India each year; bring in 2m tourists a year (last year 288,000 flew in); and build export-processing zones producing goods for the neighbouring markets of India and Tibet.

For now, all this seems fanciful. A big chunk of the money expatriates send home finds its way into the hands of the Maoists, who extort “taxes” from their relations. The Maoists also “tax” tourism increasingly heavily. Only a few months ago, a receipt with a picture of Mao and Stalin was a prized souvenir for foreign trekkers and cost only a few dollars. Now the taxman has grown greedier, approaching tour operators and hoteliers for tens or even hundreds of thousands of rupees. There are few tourists to share the cost. After the bad publicity surrounding the king's takeover, arrivals fell sharply. The Maoists have obeyed the first rule of the hospitality industry by not deliberately harming foreign tourists. But on April 9th, two Russian trekkers were hurt by a Maoist landmine, and the constant strikes and blockades are making holidays chancy.

The king's putsch has at least drawn attention to the human-rights disaster that is Nepal, though most outside interest has focused on just one part of it: the royal repression of urban opposition. The real calamity is in the villages, many of which are accessible only on foot. The government has largely withdrawn from most rural areas. The army and police are confined to the district towns. Heads of local administrations have resigned under Maoist pressure. Teachers, often the only representatives of government—and often themselves political activists—have to pay one month's worth of each year's wages in “taxes” to the Maoists, and face pressure to become “whole-timers” for the rebels. Their pupils are often abducted for days at a time; some are recruited.

In some places the Maoists have a permanent presence. In many, they are no more than roaming extortionists. Those who resist their exactions face fierce retribution. In one village three days' walk from Baglung, Kopla Thapa, a woman linked to an anti-Maoist leftist party was last November expelled from her house and land by about 50 armed Maoists, who confiscated her property. She was beaten, fled to Baglung and has not been home since.

Others face a trigger-happy army. In Baglung, on February 25th, a simple-minded, unarmed local civilian was shot dead running away from soldiers. Elsewhere, in Palpa in the south-west, three teenagers following a tradition of raising money for a Hindu festival on March 24th were shot dead when they approached a car carrying plain-clothes soldiers.

Looking for a ladder

Nepal now has the highest number of unexplained disappearances in the world—more than 1,200 people taken by the army. Few soldiers have been punished for abuses. On January 31st, the major found responsible for the 21 murders in Doramba was cashiered and sentenced to just two years in prison.

Sooner or later, it seems likely the king will have to climb down. Already most of the politicians detained during the coup, including Mr Deuba, have been freed. And on April 11th Nepal agreed to accept human-

rights monitors from the UN. The move was dismissed by some activists as intended to avoid condemnation and tougher measures from the UN's Commission on Human Rights, at present holding its annual meeting in Geneva. But it does at least give a chance to test the claims, made by the army and Maoists alike, that they want to respect human rights. It also sets a precedent for limited foreign intervention, which Nepal desperately needs but which India has always opposed.

Reuters

Less Maoist saviours than roaming extortionists

The aim of foreign governments is to persuade the king to restore power to the parties and assume a largely ceremonial role so that the “constitutional forces” are united against the Maoist foe. The main obstacle is the king's pride; but the parties' fractiousness is a further hindrance. The two biggest parties are the Nepali Congress, led by Girija Prasad Koirala, and a moderate Communist party, the Unified Marxist-Leninist, led by Madhav Kumar Nepal, who is still in detention. They will find it hard to agree a common platform.

Such a platform needs to include a strategy for engaging the Maoists in talks. Few believe the rebels can achieve a military victory either, although last autumn they moved to what they called the “strategic offensive” stage of the “people's war”. They say they want to join mainstream politics, but are demanding a “constituent assembly” to discuss a new, republican, constitution. Optimists argue that they, too, are in trouble: loathed, feared, and with a leadership boasting no spectacular successes to appease its self-sacrificing cadres. But to end the war, a republic might come to seem a fair price to pay. The king, the twelfth in his dynasty, has gambled with the monarchy itself.

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Californian politics

Is Arnold in trouble?

Apr 14th 2005 | LOS ANGELES
From The Economist print edition

Getty Images

Crunch time for California's governor—and also for his dysfunctional state

Get article background

IS THE weight of politics proving too much for the former Mr Universe? In the past few days, Arnold Schwarzenegger has backed away from his pledge to privatise California's state pension system; abandoned part of his plan to reform the prison system; and been cast by a barrage of television ads from teachers, firemen and nurses as a promise-breaking plutocrat in hock to big business. Meanwhile, the governor's approval ratings have dropped (down to 49% in a new poll of voters from San Jose State University), and his politically astute wife, Maria Shriver, has just confided to her friend Oprah Winfrey—and the 6m or so households tuning in—that she “wants him back home”.

Clearly the boss of America's most populous state is in trouble. The question is how much. The answer will matter well beyond California. Mr Schwarzenegger was a star at last year's Republican convention in New York and campaigned effectively for George Bush in Ohio (home of “The Arnold Classic” for body-builders). Even if a constitutional amendment to let foreign-born Americans be president still looks something of a daydream, his electorally seductive mix of fiscal conservatism and social liberalism makes him a powerful force for moderation in his party.

Perhaps the dreaming lulled everyone, especially the governor, into over-confidence. Back in blustery January, in his state-of-the-state address, Mr Schwarzenegger vowed this would be a year of reform for a state used to living beyond its means. If Sacramento's Democrat-dominated legislature refused to play ball, he would call a special election (November 8th is its presumed date) and ask the voters to approve four constitutional amendments: across-the-board spending cuts would be imposed if the lawmakers and the governor could not agree on a balanced budget; public employees' pensions would be switched from defined benefits to defined contributions; good teachers would be rewarded with extra pay; and the redistricting of political constituencies would be taken out of the hands of the politicians and into those of an independent panel of retired judges.

“Blowing up the boxes” of California's dysfunctional government is not, alas, that easy. Last week, the

governor was forced to retreat on pension reform: his proposal is now being redesigned. And his will to push through the other three initiatives has been further questioned by his decision to give in to the prison guards' union and to send parole violators back to prison rather than into drug rehabilitation programmes or home detention.

As Sherry Jeffe, a political scientist at the University of Southern California, points out, “his bending on the pension initiative sends a message to the protesters not to call their protests off.” The teachers duly went on parade this week, with banners denouncing both merit pay and the governor's plan to stop the “auto-pilot” spending increases given to education by Proposition 98. Why does the once sure-footed governor seem so clumsy?

One explanation is that the Sacramento Democrats are no longer “girlie men”, easily intimidated by the Schwarzeneggerian brand of populist politics. Instead, they are gearing up for next year's statewide elections. Phil Angelides, the state treasurer, challenges Mr Schwarzenegger at every opportunity (“The governor's pension-privatisation scheme now sits in its rightful place—the rejection pile of bad ideas.”). Almost as combative is another aspiring governor, the attorney-general, Bill Lockyer. Indeed, it was Mr Lockyer, whose duties include giving ballot initiatives their title and summary, who sabotaged Mr Schwarzenegger's pension project by claiming it would eliminate death and disability benefits for the state's firemen, police and other public employees (something that the Schwarzenegger team disputes). Mr Lockyer may also be able to sink the balanced-budget initiative by frightening parents into thinking it would mean much less cash for schools.

There is, however, a second explanation. The governor—for all his carefully staged “town-hall” meetings, coffee-shop visits and shopping-mall walkabouts—has misjudged his power to shape popular opinion. In particular, Mr Schwarzenegger has paid too much attention to the conservative minority in his left-leaning state: witness not just his backing for the loathed Mr Bush but also his steadfast refusal to raise taxes. His approval rating among Republicans remains high—84% in a Field poll in February, compared with 89% in May last year—but it has slumped among both Democrats (from 48% to 34%) and non-partisans (from 58% to 48%).

The Democrats have also found other holes in Mr Schwarzenegger's armour. It smacks of hypocrisy when the governor denounces his opponents as “special interests” and yet raises millions from business lobbies. And they have begun to use the governor's macho language against him. It was probably not wise for a multimillionaire movie star with a record of groping women to promise to “kick the butts” of nurses campaigning for better nurse-patient ratios.

Mr Schwarzenegger has to decide by June 13th whether to push ahead with the November ballots. The more optimistic Democrats think they will not just bully him out of that; they can also force Mr Schwarzenegger to do a “Jesse Ventura” and not run again next year (Minnesota's wrestler-turned-governor served only one term). Arnold will listen to Maria and go back to Santa Monica, where he can boast about his early triumphs (passing a first stab at budget reform and then workers' compensation reform) and moan about the intractability of Californian politics.

In public at least, Mr Schwarzenegger is hanging tough. He is attempting to turn his pension-plan retreat into some sort of political advance: “I have always said that I am the people's governor, which means that I will listen to the people.” He will refine the language to protect death-and-disability benefits and then, failing a deal in Sacramento, take that initiative to the people later—probably in June 2006.

Room exists for compromise between the governor and the legislature that would allow him to get most of what he wants without going through an expensive special election. Why not, for example, fudge the argument over merit pay for teachers by establishing new guidelines for tenure? Why not agree to independent redistricting—but on the basis of the 2010 census, rather than Arnold's goal of 2006? Why not lessen the doubtful appeal of compulsory across-the-board spending cuts by agreeing to less restrictions in the 2005-06 budget due in June?

There is a precedent for this. Last year, Mr Schwarzenegger got through his workers' compensation reform by threatening to take his scheme to the people; the Democrats caved in in exchange for some last minute concessions. But that was partly because they had just seen the governor force through two budget-balancing initiatives. Everything depends on the credibility of Mr Schwarzenegger's threat—and that turns on two hard-to-measure things.

The first is the appetite of Californians for reform. In a state where government is seen as a distraction,

this is hard to bank on. But some sort of reform is clearly necessary. The ongoing budget deficit in the coming year is at least $7 billion and the state's pension obligation is now $2.6 billion compared with just $160m five years ago. As for redistricting, gerrymandering ensured that not one Californian congressional seat changed hands last year.

The second imponderable is the will of the Schwarzeneggers. Following Maria's wobble on “Oprah”, the official word from the governor was that he was too involved in this “year of reform” even to consider whether he might run next year for a second term. The unofficial word is that the governor listens to his wife, but does not necessarily obey her (she did not want her husband to run in 2003 either).

Mr Schwarzenegger is an odd mixture of determination and superficiality. It is hard to write off the scrawny Austrian youth with an unpronounceable name who transformed himself into America's best known hunk. But he still tends to treat politics as an extension of the entertainment industry—staged meetings with the audience, softball questions from *Vanity Fair* and the rest of it. At some point in the late 1960s—most probably when he faced down student demonstrators—Governor Ronald Reagan stopped being thought of as a former movie actor and started being seen as a politician. Mr Schwarzenegger is reaching a similar point now.

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George Bush's appointments

Bolton wanderer

Apr 14th 2005 | WASHINGTON, DC
From The Economist print edition

The confirmation hearings for George Bush's proposed ambassador to the United Nations have embarrassed the administration

AP

Man of ideas or bully without facts?

THE appointment of Condoleezza Rice as secretary of state made the Bush administration's foreign-policy team less fractious and more polished—right? Wrong. At least, that is the conclusion suggested by the Senate confirmation hearings this week for John Bolton, George Bush's nominee to become ambassador to the United Nations.

Mr Bolton is a conservative's conservative, who once said it wouldn't make any difference if ten storeys were lopped off the UN's skyscraper headquarters in New York. His confirmation was always likely to be fiery. But it surpassed even these expectations and will make it harder to claim that the diplomats really are in charge of the embassy now.

At the hearings, Lincoln Chafee, a liberal Republican senator from Rhode Island, asked Mr Bolton about a speech he had given in South Korea on July 31st 2003. In it he called Kim Jong Il a “tyrannical dictator” who had turned his country into a “hellish nightmare”. Mr Bolton said the speech had been cleared by the State Department (where he was under-secretary for arms control) and represented administration policy. But the speech's timing was awkward, to say the least. It came just before the first meeting in six-party talks designed to deal with North Korea's announced nuclear-weapons programme.

Incensed, the North Koreans demanded to see Jack Pritchard, the State Department official responsible for the talks. In public, they called Mr Bolton “human scum”. In private, they were not flattering either. They threatened to walk away from the talks. Mr Pritchard told them that only the president and the secretary of state spoke for America (something that the then secretary of state Colin Powell had already told the North Koreans), that American policy had not changed, and neither had the date or place of the talks. Mollified, the North Koreans agreed to show up.

According to State Department officials, Mr Bolton (like the North Koreans) then went ballistic, apparently because Mr Pritchard had not defended his remarks to the Koreans. In the hearings, Mr Bolton accused Mr Pritchard of being out of step with government policy and suggested he had resigned because of that. In fact, Mr Pritchard had offered his resignation months before. He points out that the six-party talks were government policy, that he helped save them and that it was Mr Bolton who was “out of step” in his entire career at State. “He marches to a different drum,” said Mr Pritchard, “and the drum is out of tune.”

For critics of Mr Bolton, like Steve Clemons, a senior fellow at the New America Foundation, this episode confirms that Mr Bolton is a law unto himself. Even Mr Bolton's friends wouldn't deny that he is a man of

strong opinions. But he has also generally been seen as rather a clubbable sort, able to get on with people with whom he disagrees. A more unexpected attack on him this week had to do with his management style.

Cuba, weapons and manners

In 2002, Mr Bolton wanted to deliver a speech accusing Cuba of running a biological-weapons programme. The State Department's chief bio-weapons analyst, Christian Westermann, challenged the assertion. The question is what happened then. Did Mr Bolton try to punish Mr Westermann?

On the first day of the hearings, Mr Bolton denied it, saying: “I in no sense sought to have any discipline imposed on him.” And, indeed, Mr Westermann kept his job. The next day, Carl Ford, the former head of the State Department's intelligence bureau (and Mr Westermann's then boss) testified. He called Mr Bolton “a bully” and “a serial abuser”. He accused him of intimidating someone “five or six levels down in the bureaucracy”. “I have never seen anyone quite like Mr Bolton. He abuses his authority with little people.” It is hard to see how both accounts can be true.

This matters for more than Mr Bolton's man-management skills. As ambassador, Mr Bolton may have to brief the United Nations on American intelligence. This job will not be made easier by a reputation for denigrating intelligence officers who disagree with him.

Perhaps the strongest argument for Mr Bolton's nomination is that his oft-repeated criticism of the UN makes him well suited to encourage the reforms launched by the secretary-general, Kofi Annan. But the hearing threw up some doubts here, too. In the past, Mr Bolton has opposed sending UN peacekeepers to conflicts that are not threats to international security. He has testified against UN involvement in Congo and criticised the notion that there is any “right of humanitarian intervention” to stop ethnic cleansing or genocide. Asked by Russ Feingold, a Democratic senator, whether, with hindsight, he would have worked to stop genocide in Rwanda had he been UN ambassador, Mr Bolton replied: “We don't know logistically whether it would have been possible to do anything different”—an answer which Mr Feingold thought “amazingly passive”.

It is still unclear whether Mr Bolton's nomination as UN ambassador was an imaginative, if risky, choice by the administration, or the product of an uneasy compromise between Ms Rice, who did not want him at State, and Dick Cheney, who insisted Mr Bolton have a high-level post. Ms Rice has been diligently lobbying for his confirmation. But it can hardly be a sign of confidence in him or amity in the administration that she has appointed her own adviser on UN reform, rather than relying on Mr Bolton.

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This sporting life

Nine lives needed

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From The Economist print edition

Miaow, miaow. Bang

BACKS were up and claws were bared in Wisconsin this week as animal lovers and hunters faced off in a royal cat-fight. When the fur stopped flying, the hunters claimed victory: by 57% to 43%, residents said that under certain circumstances free-roaming domestic cats can be shot.

Despite the tearful pleas of feline advocates (some of whom wore whiskers and tails to packed county meetings), the dust-up wasn't about their beloved pets. Rather, the April 11th vote focused on whether feral cats should be designated an “unprotected species”. The purely advisory public vote, in which 12,000 people participated, now goes to the state Department of Natural Resources (DNR), and will have to pass the state legislature before it becomes law.

The proposal was first made by a hunter in La Crosse who claims that free-roaming, feral domestic cats—those without collars and not under an owner's direct control—are a nuisance, killing millions of birds and other animals. He has since received death threats. Opponents of the proposal want better education for cat-owners (many domestic pets are let loose in the wild) or trapping, neutering and releasing of feral cats.

Misinformation has fuelled the frenzy. “We're not going to have a cat-hunting season in Wisconsin,” says Burt Bushke of Wings Over Wisconsin, a hunting and bird-watching group. “They think it's going be like deer-hunting season. It's not.” The DNR reckons about 15% of Wisconsin residents are hunters, putting it among the top hunting states in the country.

No one knows how many feral cats are roaming about, but one much cited study by a University of Wisconsin professor (discounted by cat advocates) says there are 1.4m of them in the state. The Humane Society, an animal-protection group, is less certain: it reckons somewhat vaguely that the feral cat population nationwide is somewhere between 10m and 70m. Their domesticated cousins are easier to count: about 78m pet cats live in America, meaning they still outnumber their canine rivals by 13m.

Wisconsin is not the first state to consider shooting cats. Wyoming, with lots of wide-open spaces and a gun-loving culture, has a statute that designates cats at large as a nuisance. Minnesota has allowed feral cats to be shot for decades, according to a state official, though unlike Wyoming (and now potentially Wisconsin), the cats are not specifically listed as potential targets.

It is unlikely that the Fish and Wildlife Service will intervene. Last month, the Bush administration somewhat wittily named a former chief lobbyist for Safari Club International, a trophy-hunting organisation, as the acting director of the service. Sylvester and Garfield had better keep their heads down, along with Bambi and Thumper.

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Manhattan's new stadium

To build or not to build

Apr 14th 2005 | NEW YORK
From The Economist print edition

Wrangling about the world's most expensive football pitch

AP

Mike's mirage

Get article background

“IF YOU build it, they will come” are words that should make every urban taxpayer shudder when it comes to sports stadiums. Now the same logic that persuaded Kevin Costner to carve a baseball diamond out of an Iowa cornfield in “Field of Dreams” is driving a dreamy plan to build an American football stadium (and much more) in Manhattan.

On April 12th, New York's economic-development agency unanimously approved a proposal to create a new 75,000-seat home for the New York Jets, as well as a convention centre, umpteen million square feet of new commercial office space, a new subway line and much more. This came a week after a similarly unanimous vote by the Metropolitan Transit Authority (MTA), which owns the proposed site in Manhattan's West Side.

The New York Sports and Convention Centre (NYSCC), as the hybrid complex is undreamily called, is expected to cost up to $2.2 billion. Its two biggest boosters—New York's governor, George Pataki, and New York City's mayor, Michael Bloomberg—have agreed to pony up $600m in city and state cash to move the proposal along.

Messrs Bloomberg and Pataki tick off a litany of reasons why the priciest stadium ever built makes sense in traffic-snarled and cash-strapped Manhattan. It will help New York win its bid to host the 2012 Olympics (a long shot, say the cynics: New York is behind Paris). It will create 7,500 permanent jobs (the Independent Budget Office says half that). It will bring in many more conventioneers and tourists, and spur the building of new hotels and shops: Dan Doctoroff, the city's deputy mayor, says the city had to turn away 54 conventions in the past few years, worth $300m in visitor spending.

The most important arguments turn on inspired guesses about how much new economic activity the NYSCC will generate. Mr Doctoroff insists there will be enough for the city to service a $3 billion bond issue needed to finance Mr Bloomberg's overall plan to revive the underdeveloped West Side.

The mere scent of public cash has summoned up an unusual array of allies for Mr Bloomberg, including the construction unions and Al Sharpton. But not everybody is convinced. Local groups are complaining about traffic and other disruptions. Others protest that the subsidies for the NYSCC amount to little more than “corporate welfare” that would be better spent on the city's schools and fire department.

Mr Bloomberg is hard to characterise as the usual sports-obsessed mayor splurging cash on his hobby; he rarely attends games and has run a reasonably tight ship. Most of the public bond issue is going into the subway part of the new complex. But he has made a hash of the bidding process.

First, he backed the Jets' initial $100m bid to build the stadium, but critics forced an open bidding process. Cablevision—the owner of Madison Square Garden, which stands to lose business to the Jets stadium—bid $400m and asked for no taxpayer subsidy. Mr Bloomberg still recommended the Jets, who had been forced to up their bid to $250m.

Mr Bloomberg's people insist that the Jets' bid will bring in more money for the city in the long term. The deal allows the MTA to keep and sell the extremely valuable “air rights” above the NYSCC complex to property developers. But Cablevision is furious: it has already filed a lawsuit against the Jets and the MTA alleging a “sham bidding process”.

Whatever the truth of that, the Jets' proposal now faces a harder test—the three-man state Public Authorities Control Board. One member is appointed by the pro-stadium Mr Pataki; the other two by Sheldon Silver, the Assembly Speaker, and Joseph Bruno, the state Senate majority leader, both of whom seem more sceptical. Mr Sheldon worries that the project will divert attention from rebuilding lower Manhattan after the September 11th attacks. The dream might still not happen.

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Children and cancer

Unseen and underfought

Apr 14th 2005 | CHICAGO
From The Economist print edition

Is America worrying enough about cancer rates among the young?

IT IS a startling claim, but one that Congresswoman Deborah Pryce uses to good effect: the equivalent of two classrooms full of children are diagnosed with cancer every day. Mrs Pryce lost her own 9-year-old daughter to cancer in 1999. Paediatric cancer remains a little-understood issue in America, where the health-care debate is consumed with the ills, pills and medical bills of the elderly.

Cancer kills more children than any other disease in America. Although there have been tremendous gains in cancer survival rates in recent decades, the proportion of children and teens diagnosed with different forms of the disease increased by almost a third between 1975 and 2001.

Part of the increase may be explained by better detection equipment and reporting. But as Gregory Reaman of the Children's Oncology Group, a leading collaborative research group, puts it, “The suspicion is the increase is real, and we don't know why.” The Environmental Protection Agency recently gave warning that children may be particularly vulnerable to certain gene-damaging chemicals (with the risk for toddlers under two being as much as ten times that for adults). But, on the whole, there is a contrast with adult cancer, where links have clearly been established to environmental and “lifestyle” factors, notably smoking. Most causes of cancer in the young are a mystery.

The American Cancer Society reckons about 1.4m Americans will be diagnosed with cancer this year. About 9,500 sufferers will be younger than 14, with several thousand older teenagers also likely to be diagnosed. More than 1,500 children under 14 are expected to die.

Grisly though these statistics are, they are still tiny when set beside the number of adult lives lost to breast cancer (41,000 each year) and lung cancer (164,000). Advocates for more money for child cancer prefer to look at life-years lost. The average age for cancer diagnosis in a young child is six, while the average adult is diagnosed in their late 60s. Robert Arceci, a paediatric cancer expert at Johns Hopkins, points out that in terms of total life-years saved, the benefit from curing paediatric cancer victims is roughly the same as curing adults with breast cancer.

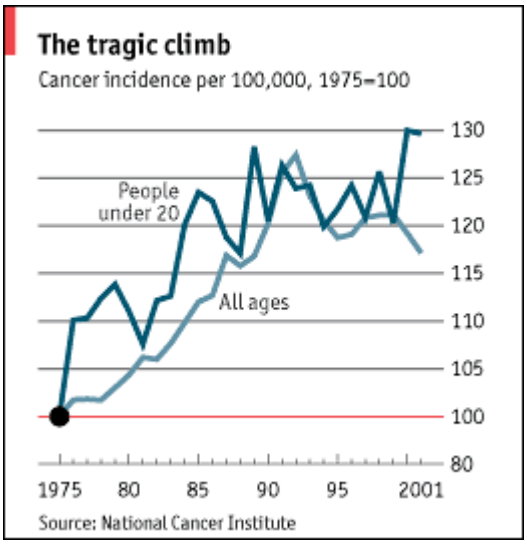
There is an obvious element of special pleading in such calculations. All the same, breast cancer has attracted a flurry of publicity (all those supermodels wearing ribbons), private fund-raising and money from government. Childhood cancer has received less attention and cash. Paediatric cancer, a term which covers people up to 20 years old, receives one-twentieth of the federal research money doled out by the National Cancer Institute. Funding, moan paediatric researchers, has not kept pace with rising costs in the field, and NCI money for collaborative research will actually be cut by 3% this year.

There is no national paediatric cancer registry that would let researchers track child and teenage patients through their lives as they can do in the case of adult sufferers. Depressingly, treatments do not seem to be advancing as they have done with adult cancer. Doctors admit they have reached the limits of effective dosage with chemotherapy.

The lobbying of Mrs Pryce and other parents is bearing fruit. A pilot childhood-cancer registry is in the works. Groups like Mr Reaman's now get cash directly from Congress. But it is plainly a problem most politicians don't know much about.

One area of interest to the scientists is the way that paediatric cancer discriminates by race and gender. Boys are more likely to develop non-Hodgkin's lymphoma, for instance, while girls are more likely to develop thyroid carcinoma and melanoma. The rate of leukaemia, the most common childhood cancer, is highest among Latinos, but white children and teenagers have the highest overall cancer rates in America.

The biggest problem could lie with 15-19-year-olds. Those diagnosed with cancer have not seen the same improvement in their chances as younger children and older adults have done. There are some physical explanations for this: teenagers who have passed puberty are more vulnerable to different sorts of cancer. But Archie Bleyer, a paediatric oncologist at the M.D. Anderson Cancer Centre in Texas, has produced some data implying that lack of health insurance plays a role. Older teenagers and young adults are less likely to be covered and checked regularly.



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Thespians in Louisiana

Come play with me

Apr 14th 2005 | THIBODAUX
From The Economist print edition

Do movie stars represent better value for money than carmakers?

FOR politicians, doling out money to the film industry has almost no downside. The sums are relatively small, movie stars are so much nicer to have to lunch in the state capitol than steel workers, and your press people can brag about you building up the local knowledge economy.

Louisiana is a case in point. Even before the state started doling out money, Tinseltown was fairly partial to voodoo priestesses, angsty vampires, bayous, baffling accents, wily Cajuns and the rest of the Louisiana Gothic backdrop. The long-empty slave cabins at Laurel Valley Plantation, just outside New Orleans, were used in both “Angel Heart” (1987) and “Interview with the Vampire” (1994).

Three years ago, though, the legislature decided to give film-makers who came to the state a tax credit of up to 15% of their total investment, plus up to 20% of the wages they pay to Louisiana residents. Nowadays Louisiana is often a much cheaper location than other states or Canada (a haven for so-called “runaway production”). The producers of “Ray”, a biopic about Ray Charles, quickly cancelled plans to film in Georgia. In 2003 Laurel Valley stood in for Greenville, Florida, the musician's decidedly vampire-free home-town.

Indeed, the incentives have proved far more popular than proponents ever dreamed. Louisiana, no longer just a Gothic backdrop, has played host to dozens of movies, television shows and music videos, many of which could have been shot anywhere. The total budgets for film and video projects soared from $12m in 2002 to $355m in 2004. The state is now so blasé about having Hollywood folk around that the producers of “Glory Road”, a basketball movie, had trouble finding enough extras to fill the arena.

But what about the cost to taxpayers? Over the past three years, the state has given out roughly $100m in credits. New taxes generated by film activity will make back less than one-fifth of that, estimates Greg Albrecht, chief economist at the Legislative Fiscal Office in Baton Rouge.

This does not worry the state's economic-development folk. What other industry, they ask, could create $20-an-hour jobs for people without college degrees? Owners of lumberyards, antique shops and many other businesses like selling to production crews, who buy in bulk and pay on time. The movie subsidies are small change compared with the $1 billion that Alabama and Mississippi, two other poor southern states, have spent luring car factories. Tax-credit proponents in Louisiana now want to extend the movie incentives to video-game makers.

On the other hand, there are question-marks about how long the boom can last. Louisiana has no film laboratory or good editing facilities, or a sufficient supply of skilled crew members, so only around 40% of a typical “Louisiana” movie's budget is actually spent in the state. Carmakers may be pricey to lure in, but a billion-dollar factory is much harder to abandon than a backdrop. An industry that has entered Louisiana overnight may leave just as quickly if offered even better tax credits elsewhere.

Mark Smith, the entertainment director for the Department of Economic Development, thinks Louisiana can avoid that fate by building up its film infrastructure. There are some signs it is doing this: Panavision, a camera company, is opening an office outside New Orleans, and local production companies are multiplying. Mr Smith suggests the state government could help pay to train more crew members.

When the legislature convenes later this month to discuss a state budget shortfall of up to $400m, there may be some pressure from bean-counters to reduce the tax credits. But big cuts look unlikely. The Big

Easy has rather taken to the likes of Sean Penn and Jude Law (recently in the state to film a new version of “All the King's Men”) hanging around its bars. And Kathleen Blanco, the governor, is a firm fan. When Messrs Penn and Law needed to be filmed in the state capitol, she abandoned her own office in order to accommodate them.

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Lexington

Time for him to go

Apr 14th 2005
From The Economist print edition

Tom DeLay has become a liability to the Republican Party

THE last time the Republican Party decapitated a king of the Hill, everything went remarkably smoothly. Trent Lott spoke warmly about racial segregation at Strom Thurmond's 100th birthday party on December 5th 2002; 15 days later, the Senate majority leader had resigned; and by Christmas the Republicans had chosen a smiling face from the New South—Bill Frist.

Now another king of the Hill is in trouble. Tom DeLay, the House majority leader, has received three unanimous admonishments from the House Ethics Committee in the past year alone. And the accusations keep coming: that he went on fancy golfing trips paid for by American lobbyists and "foreign agents"; that one of his political action committees funnelled illegal corporate contributions to candidates for the Texas legislature in 2002; that he pays lavish salaries to his wife and daughter.

This time round the decapitation, if it comes, will be bloody and prolonged. The Hammer, as he is known, is a much more ferocious political beast than Mr Lott—and especially brutal when cornered. He has already dealt with the House's pesky ethics committee by packing it with loyalists and rewriting the rules to make it harder to bring ethics charges. And he enjoys much stronger support from his party. Social conservatives love his fire-and-brimstone speeches against abortion and euthanasia; more pragmatic congressmen respect him for the millions he has raised for their party and his skill as a leader. Without Mr DeLay's redistricting scheme in Texas, the House Republicans would have lost seats in 2004.

A few wobblers have spoken out, including Rick Santorum, the third-ranking Republican senator, Chris Shays, a moderate congressman, Newt Gingrich and the *Wall Street Journal*'s editorial page. But, for the most part, the conservative tribes are massing to defend Mr DeLay from the "liberal media". The House Republicans gave him a thunderous ovation at a recent closed-door caucus. The White House has voiced its support. The Heritage Foundation, the Family Research Council and the American Conservative Union are all throwing their resources behind him. Plans are afoot for a 1,000-strong dinner, complete with a film celebrating his contributions to conservatism.

Is that wise? The longer you study the DeLay affair, the more clearly it has passed the point where conservatives have more to lose than gain by rallying around him. If they continue to support Mr DeLay, they risk tarring the entire movement with his ethical problems. If they replace him with a clean new face (say, Roy Blunt, the majority whip), they save themselves months of distraction and begin to rein in their

increasingly dangerous affair with K Street, the lobbyists' home in the capital.

Conservatives can quibble with the charges against Mr DeLay. Look, for instance, at those dodgy trips abroad and you can argue that the funding for them is absurdly complicated. Or look at the accusation that Mr DeLay broke Texas campaign-finance law. The prosecutor behind the investigation is a Democratic partisan who also brought a flimsy case against Senator Kay Bailey Hutchison. Or look at the accusation that Mr DeLay employed his wife and daughter. A dozen other congressmen, Democratic as well as Republican, do the same thing.

However, the absence of a smoking gun does not mean conservatives should hang on to Mr DeLay. To begin with, such a gun might still emerge: there are several inquiries into the affairs of Jack Abramoff, a lobbyist pal of Mr DeLay's who raised tens of millions of dollars from Indian tribes in controversial ways. Second, there is already enough material for Democrats to keep DeLaygate open for months: it is hard to imagine the Hammer allowing anybody else to turn himself into such a distraction from the party's agenda. And, third, even without a smoking gun, Mr DeLay embodies an abuse of power that is becoming a huge problem for the Right. Look back over the former pest-controller's career in the capital and two intertwined themes emerge: his willingness to push any rule to its limits (he even, temporarily, got his party to rewrite its rules forbidding people indicted for serious crimes to hold leadership posts), and his hand-in-glove relationship with lobbyists.

The perils of using steroids

The current revelations about expensive golfing holidays miss the real point about DeLay Inc. Mr DeLay isn't particularly interested in money. He is concerned with power. He has devoted his energies to a grand vision: harnessing the strength of the business community to entrench the Republican Party majority. The Hammer has not just pummelled business wallets harder than previous majority leaders. He has persuaded their owners to ditch Democratic lobbyists and replace them with Republican ones. He has put Republicanism at the heart of K Street—and K Street at the heart of Republicanism.

Many Republicans see no harm in America's more businesslike party cosying up to business. But DeLay Inc should raise questions for all sorts of people on the right. For social conservatives committed to moral government: why are they now in bed with the likes of Mr Abramoff? For small-government types: why are they hand-in-glove with the pork-procurers who have pushed up federal spending? For free-market Reaganauts: why have the Gipper's heirs given so much power to people bent on twisting government to favour special interests?

For the American right, K-Street conservatism is the political version of steroids: it confers short-term strength at the expense of long-term health problems. The Republicans took over Congress in 1994 in part because they skilfully used attacks on individual politicians to suggest that the Democrats were soft on corruption. The Republicans are vulnerable to exactly this treatment. From that perspective, getting rid of Mr DeLay is only a first step. But it is a good place to start.

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Correction: American cotton subsidies

Apr 14th 2005
From The Economist print edition

In "Down with King George" (March 26th), we said that American cotton subsidies exceeded levels determined at the World Trade Organisation in 1994; they were actually set in 1992.

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Politics in Mexico

A would-be president heads for political martyrdom

Apr 14th 2005 | MEXICO CITY
From The Economist print edition

Reuters

The opponents of Andrés Manuel López Obrador hope that protests over his impending criminal trial will fizzle out. But what if they are wrong?

IF ONE attribute has marked the political career of Mexico City's left-wing mayor, Andrés Manuel López Obrador, it is persistence in the face of obstacles. He first achieved national prominence in 1994 when his supporters blocked oil wells and marched on Mexico City to try to reverse what he claimed was his defeat by fraud in an election for governor of Tabasco state. So Mexico may well be in for a turbulent year. Last week, the Congress voted, largely on party lines, to remove Mr López's immunity from prosecution for contempt of court. With that, it flung a spanner into his campaign to be elected president. But the mayor is Mexico's most popular politician. He has now promised a lengthy campaign of “civil disobedience”.

These events set the stage for what will be Mexico's fiercest political battle since the election victory of Vicente Fox in 2000 marked a deceptively smooth transition to democracy after seven decades of rule by the Institutional Revolutionary Party (PRI). In the Congress, Mr Fox's party and the PRI joined together to strip Mr López of his immunity by 360 votes to 127. Although these parties claim that they are merely upholding the law, the mayor's supporters are not the only people who detect a political plot to stop him being elected.

The battle will now move to the courts. The attorney-general's office will shortly give a judge some 16,000 pages of evidence in 17 volumes against the mayor, who is accused of ignoring a previous court order in a planning dispute. The judge will have ten days in which to issue an arrest warrant against Mr López, and a further ten to order a trial. From that moment, the mayor is prohibited by the constitution from standing for election and is obliged to give up his current job.

Mexico's judiciary used to be under the thumb of the government of the day, but has recently shown signs of increasing independence. So there is a chance that the judge may decide that Mr López has no case to answer, or accept a complaint filed by his party. Barring that, the mayor's political martyrdom will proceed. He has said that he will refuse bail and conduct his campaign of resistance from a jail cell. Since the course of justice in Mexico is never swift—the case against Mr López refers to events in 2001—it is highly unlikely that the trial will end before the January deadline for the registration of candidates for the presidential election.

So far, Mr López has the public on his side. Opinion polls in January gave him some 32% support for the presidency, ahead of Roberto Madrazo of the PRI and Santiago Creel of Mr Fox's party, who both had around 25%. (Perhaps not coincidentally, it was Mr Madrazo who defeated Mr López in Tabasco in 1994). Now, Mr López has risen to 45%, according to the Institute of Marketing and Opinion, a pollster. Another poll showed that 60% disagree with the Congress's decision to remove the mayor's immunity.

Mr López's campaign will have two tracks. First, he has said he will apply to the Federal Electoral Tribunal for an injunction to re-establish his political rights, and may also seek redress in international human-rights tribunals. Second, he plans to use the streets. Some 150,000 people turned out to support him at a rally in the Zocalo, Mexico City's main square, on the (weekday) morning of the congressional vote. The next test of his support will be a “march of silence” planned for April 24th.

The only alternative candidate of the mayor's Party of the Democratic Revolution is Cuauhtémoc Cárdenas. Although only fraud seemed to deny him victory in 1988, he is now a spent force, so Mexico's left will not easily abandon Mr López. A bigger risk for him may be that the protests will tip into violence and thereby alienate other voters. But the mayor has urged his followers not to break the law.

His opponents see in Mr López a messianic populist in the mould of Venezuela's president, Hugo Chávez. He frequently overrode the city council until he secured a majority on it in 2004. He is alleged to have been slow to act against corrupt collaborators. Some Mexicans question his handling of the city's finances: they claim that he robbed the sewerage system of investment in order to pay for popular handouts to over-70s. They worry whether Mexico's democratic institutions would be strong enough to impose restraints on his power should he become president.

His supporters paint a different picture. They admire his energetic, can-do approach to governing, his austere personal habits, his left-wing rhetoric and his cheeky sense of humour. And they see in the campaign against him the hand of top businessmen who fear that as president Mr López would re-open investigations into a generous government bailout of banks a decade ago.

Mr López's opponents are banking on the protests petering out well before the election. This may happen. But if they are wrong, the damage to Mexican democracy could be great. Before 2000, the previous four presidential contests were marked by economic or political instability, or both. Mr Fox promised ambitious reforms to liberalise the country's economy and political system. He has disappointed on both counts, in part because he lacks a majority in Congress. The last thing Mexico needs is for the legitimacy of its next president to be questionable.

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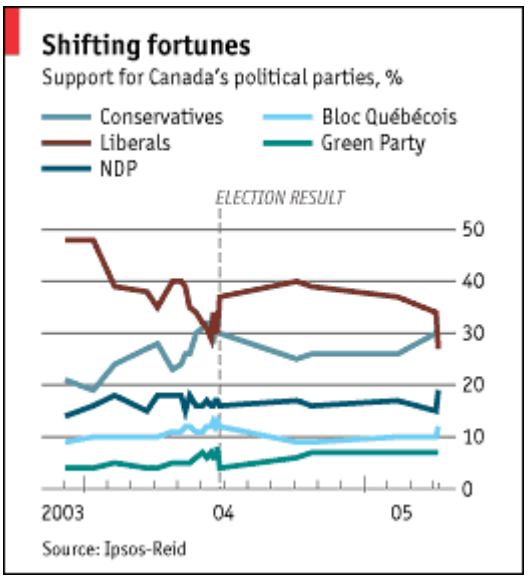
Canada

The strange death of Liberal Canada?

Apr 14th 2005 | OTTAWA
From The Economist print edition

Allegations of sleaze could topple the government and break up the country

Get article background



SUDDENLY, an abyss has opened up under Paul Martin's minority Liberal government. Only a few weeks ago, Mr Martin's supporters were looking forward with equanimity to the prospect of the prime minister calling an election some time next year to restore their party to the parliamentary majority it enjoyed for more than a decade until last year. Now, Canada is contemplating the possibility of the Conservative opposition forcing a June poll and going on to form a minority government. In due course, say some alarmed federalists, a new attempt by French-speaking Quebec to secede from Canada would follow.

All this is the result of the explosive turn taken by the Gomery inquiry. This is looking into the abuse of a C$250m ($200m) scheme to promote federalism in Quebec set up by Jean Chrétien, Mr Martin's predecessor, in the wake of the narrow defeat of the last referendum on secession a decade ago. Last week, Jean Brault, a Montreal advertising man, told the inquiry that his agency had received C$23.4m for services that included adding Liberal Party workers to his payroll. He also said he had contributed $1.2m to Liberal funds, much of it in cash in brown envelopes or against fake invoices. In other evidence, the inquiry heard claims that a graphic-design firm headed by Jacques Corriveau, a friend of Mr Chrétien and fundraiser for him, received sub-contracts worth $6.7m through the scheme.

Judge John Gomery's decision to ban publication of Mr Brault's testimony (some of which is contested) was reversed in part after this was posted on an American website. The effect of the ban was merely to draw more attention to the testimony. The damage to the Liberals showed up in an opinion poll by Ipsos-Reid (see chart). Another poll, by EKOS, put the Conservatives even further ahead of the Liberals, at 36% to 25%. In Quebec, it showed Liberal support having collapsed to 18%, with the separatist Bloc Québécois at 48%.

These polls show the Conservatives level or even ahead in Ontario, a Liberal stronghold. That makes an early election attractive to Stephen Harper, the Conservative leader, as well as to the Bloc. If they combine their forces behind a no-confidence motion, they could outvote the Liberals in the House of Commons.

The Liberal ship is already showing signs of sinking. One of the 133 Liberal MPs this week left the party to sit as an independent. Another 33 Liberals defied Mr Martin and voted with the Conservatives to kill a government bill recognising same-sex marriage. Impatient Tories are urging Mr Harper to engineer a snap election. They argue that the best time for a vote would be late June, after a provincial election in British Columbia, a visit by Queen Elizabeth to western Canada—and the end of Judge Gomery's public hearings.

If the polls are right, Mr Harper could expect to win such an election, though the Tories might win only one seat in Quebec. It would be a close-run thing. Mr Martin, to whom no personal blame has attached over the scandal, remains slightly more trusted than Mr Harper. The polls suggest the leftish New Democrats and Greens would attract more disillusioned Liberals than would the Tories. Tellingly, some

85% of respondents told pollsters they want Mr Gomery to finish his work—his report is due in December—before an election.

By then the Liberals may have recovered and Mr Harper's moment might have passed. If he does go for an early election, the big winner could be Gilles Duceppe, the Bloc's leader. Some would expect him to capitalise by leaving federal politics and taking charge of the more powerful Parti Québécois in the province itself. There he could challenge Quebec's clumsy Liberal premier, Jean Charest, and so pose a new threat to Canadian unity. All this is but speculation, but such is the febrile atmosphere in Canada's normally placid capital that it is being taken seriously.

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Cuba's economy

Hatfuls of dollars

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From The Economist print edition

Rich government, poor people

AT THE end of last year, the tellers at Cuba's central bank must have been busy. Hundreds of millions of dollars, mainly in crumpled bills of small denomination, poured into the state coffers. They came from under mattresses, behind pictures and mirrors, the roofs of pig pens or hollowed-out coconuts—the myriad hiding places where ordinary Cubans secrete their savings. Their transfer to the government boosted the country's hard-currency reserves by $1,476m last year, according to the central bank.

The total amount of reserves is a state secret. But the increase is by far the biggest recorded since the collapse of the Soviet Union in 1991 plunged Cuba's communist economy into penury. Only three years ago, Fidel Castro's government was so short of foreign exchange that ships laden with oil and other goods waited outside port to be paid and Cuba defaulted on some $500m in trade credits.

The huge jump in reserves is mainly the result of a ban on the use of dollars on the island, imposed by Mr Castro last November. He gave Cubans three weeks to swap their dollars for a new currency, the convertible peso, or face a 10% tax on currency exchange. Cubans duly mobbed government banks and exchange houses.

Now Mr Castro has done it again. Last month he revalued the convertible peso by 8%. Until April 9th, Cubans could change dollars for convertible pesos at the old rate. Once again, they lined up to swap their hoarded wealth, though in smaller numbers and with less cash in hand.

Mr Castro justified the ban on dollars as a response to moves by the United States to try to restrict Cuba's use of dollars abroad. But he was able to impose it because in some ways the island's economy is doing better. High nickel prices, a rise in tourism revenue and, above all, the export of doctors to Venezuela in return for cheap oil all enabled Cuba to post a current-account surplus last year. This totalled $176m, according to the central bank.

Yet none of this has made much difference to ordinary Cubans. The local economy remains depressed by energy shortages, drought and the collapse of the sugar industry. Mr Castro has rolled back the timid opening of the economy of a decade ago, curbing small business and reasserting central control over state firms.

Officials say that the state's new-found liquidity will help finance big new investments in infrastructure, nickel and oil. The central bank has also repaid some suppliers and holders of short-term government debt, opening the way for a renewal of trade credits. But there is no indication that the government will restructure the $12 billion in hard-currency debt owed mainly to European and Latin American governments on which it defaulted in 1986.

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Cuba and its diaspora

Sugar and spice

Apr 14th 2005 | MIAMI
From The Economist print edition

A rum tale of trademarks and slogans

IS IT geography or chemistry that gives different rums their distinctive taste? Is it the sugar, the soil and the climate? Or is it closely-guarded recipes for distillation? Those questions are at the core of a lawsuit in a Paris court by Pernod Ricard, a French drinks group, against Matusalem, a Miami-based company selling rum it claims is “Cuban”.

Since 1993, Pernod has operated a 50-50 joint venture with Cuba's communist government for the international marketing of Havana Club rum. Though its sale is banned in the United States under the trade embargo against the island, Havana Club is now the second biggest-selling rum in the rest of the world. Its lawsuit claims that its hooch is “the only authentically Cuban spirit”. It is seeking damages from Matusalem for “falsely” claiming Cuban origin.

Like all disputes involving Cuba, this one is steeped in politics and history. A company named Matusalem was founded in Santiago, in eastern Cuba, in 1873. It produced Cuba's top *añejo*, or aged dark rum. “How can anyone claim our rum has no Cuban heritage?” asks Claudio Álvarez, the company's boss and the great-grandson of its founder.

Like many wealthy Cubans, Mr Álvarez's family fled Cuba after Fidel Castro's 1959 revolution. They started making rum in the Bahamas using the formula smuggled out of Cuba, but struggled to build the brand internationally. Meanwhile, Cuba's government launched its own version of the Matusalem brand.

After Mr Álvarez, a Miami doctor, took over the firm he shifted production to the Dominican Republic (to a town also called Santiago) and relaunched the brand. The company now produces almost 2m bottles a year; its *Gran Reserva*, a 15-year aged dark rum, has proved a hit with connoisseurs in Italy and elsewhere in Europe.

That may be what has alarmed Pernod. The French firm is no stranger to battles over rum with Cuban exiles. Last year it persuaded the United States' Patent Office to throw out a trademark challenge brought by Bacardi, a spirits firm now based in Bermuda and the maker of the world's biggest-selling rum. It was seeking to cancel the Havana Club trademark in the United States, to protect its market domination after Mr Castro has gone and the embargo is lifted. Bacardi had also begun selling its own version of Havana Club in the American market. It was forced to halt production after Pernod successfully argued that this rum could not be marketed as “Cuban”.

Rather than its trademark rights, Pernod contests Matusalem's slogan, “The Spirit of Cuba”, emblazoned across the bottle. The fine print explains that the product is made in the Dominican Republic. Nobody can dispute Matusalem's Cuban past. But given the store that French wine-makers set by *terroir*, the country's courts may well decide that only Cuba can make Cuban rum.

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The Caribbean Court

Justice in the islands

Apr 14th 2005 | PORT OF SPAIN
From The Economist print edition

Parochialism mars a new tribunal

WITH pomp and ceremony, a Caribbean Court of Justice is due to be inaugurated on April 16th in Trinidad's capital, Port of Spain. It is intended to replace Britain's Privy Council as the region's final court of appeal. But the convoluted politics of the English-speaking Caribbean mean that the court, if not quite stillborn, is less than fully alive. In 2001, a dozen countries signed a treaty to set up the court. The Caribbean Development Bank borrowed $100m for a trust fund to pay for it. But, for now, only Barbados and Guyana will send cases for trial there.

Trinidad & Tobago's former prime minister, Basdeo Panday, pushed for the court when he was in government and lobbied successfully for the right to host it. Out of office, he now argues vehemently against the treaty and has blocked its implementation. In Belize the opposition used a similar blocking power. Jamaica's opposition Labour Party successfully challenged the switch before the Privy Council itself.

The status quo has supporters among lawyers and human-rights groups as well as politicians. Some want to retain a (free) link to a wider legal tradition. Appointments to the new court's six-judge panel appear insulated from influence-peddlers. But some Caribbeans nevertheless dislike the panel on the parochial grounds that it lacks, for example, a Jamaican or an Indo-Trinidadian. Others worry that the court will be readier than the Privy Council to impose the death penalty.

The new court is also intended to rule on trade disputes in the Caribbean Community's single market, which is due to come into effect later this year. But opposition parties threaten legal challenges to this function, too. All this risks turning the court into a costly white elephant.

That would be unfortunate. Many of the Caribbean's court systems are slow and cumbersome in their procedures, and forensic services are poor. Legal integration could help. Nine smaller islands in the eastern Caribbean have already set up a common system, from magistrates' courts to those of first appeal. Pan-Caribbean courts, sitting outside their home turf, might help the bigger islands, too. They could ease fears of bias or intimidation, not least in eye-catching jury trials of politicians, police, or reputed gangsters. The drug trade, corruption and murder plague the small states of the Caribbean. Putting the courts right matters.

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Animal and human health

Sitting ducks

Apr 14th 2005 | BANGKOK
From The Economist print edition

Reuters

Bird flu is now endemic in Asia. This is frightening for everyone

FOR the epidemiologists of East Asia, April has been a cruel month. On the 6th, the outbreak of influenza that has afflicted millions of the region's birds claimed its 50th human victim, a young girl in Vietnam. The death came days after the authorities launched a huge campaign to disinfect every poultry farm and bird coop in the country in an effort to eradicate the disease. At the same time, news emerged that the virus known as H5N1 is also killing chickens in North Korea.

Avian influenza—"bird flu"—is still spreading, despite frantic countermeasures since the current outbreak first began in late 2003. And as it spreads, so do fears that a human epidemic will emerge from it. These fears were hardly soothed, this week, by news that an American college had inadvertently dispatched thousands of samples of a deadly human flu virus to laboratories around the world.

Prior to the latest outbreaks, bird flu was thought to be rare in poultry, and unlikely to spread between countries. Today, however, it has affected 11 countries all the way from Japan to Indonesia, and caused the death or destruction of over 120m Asian birds. This outbreak is without precedent. Never before have poultry in so many countries been affected by a deadly form of bird flu.

A previous outbreak of the disease struck Hong Kong in 1997. It was brought to a swift end when the authorities exterminated the region's entire 1.5m poultry population. This time, the deadly version has struck much poorer countries, such as Indonesia and Vietnam, which did not have the bureaucratic capacity to detect and respond so quickly. Some officials may have made things worse by trying to cover up outbreaks in order to protect their country's poultry exports. By the time governments resorted to culling, the disease was widespread.

Chaturon Chaisang, the minister in charge of Thailand's fight against the epidemic, says the problem will persist in Asia for some time. Millions of poor farmers across East Asia raise poultry of some sort in their fields or backyards to supplement their meagre diets and income. In Sa Kaeo province of Thailand, for example, two out of three households keep chickens. Unlike the poultry in commercial farms, which are kept in isolation, these chickens and ducks are free to roam, and contract bird flu.

Governments are finding it almost impossible to monitor, let alone isolate, so many sources of infection. Earlier this month, officials in Vietnam learned of an outbreak in their province from the newspaper. Thailand mobilised 600,000 volunteers last year to try to track down every last case, to no avail. To this day, many people in rural Cambodia have never heard of bird flu at all.

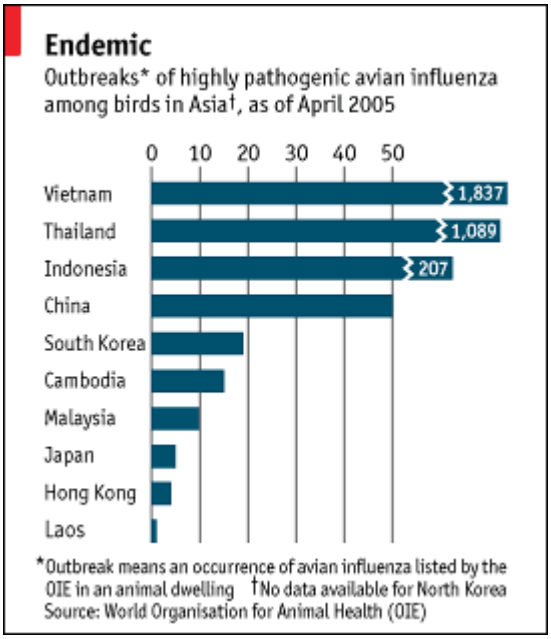
Moreover, the virus is becoming harder to detect. At first, almost all poultry that caught bird flu quickly sickened and died within a day or two. Only wild birds could carry the disease without getting sick, and so disseminate it far. But now some domesticated ducks have developed resistance to the disease. Only laboratory tests can show whether they are a threat to other birds, or to those who keep them. Worse, these animals may also be excreting the lethal virus in their faeces, which could explain how some humans have contracted the disease without any apparent contact with poultry.

The best way to prevent a human epidemic, of course, is to end the avian one. Given the difficulties of isolating outbreaks, some countries have resorted to vaccinating poultry. But the existing vaccine does not prevent birds from getting the disease; it only makes their symptoms milder. What is more, the European Union, for one, bans the import of poultry from countries that use vaccines until a year after they were last used. Thailand, which was the world's fourth-largest exporter of poultry before bird flu hit, would be reluctant to abandon all hope of resuming exports.

A deadly reservoir

In short, H5N1 bird flu has become endemic. Yet if a human epidemic—which could very easily become a pandemic, an outbreak on a global scale—is to be ruled out then this “reservoir” for the disease needs to be eliminated. Klaus Stohr, who runs the global influenza programme at the World Health Organisation, says that very few people believe bird flu can be controlled in Asia in the next few years. The prospects for eliminating it, he concludes, are bleak.

H5N1 keeps many epidemiologists awake at night because it comes close to fulfilling the three conditions for causing a human flu pandemic. These are that a novel virus must emerge to which humans have no or little immunity (tick); that the new virus must be able to replicate in humans and cause serious illness (tick); and that it must be efficiently transmitted from one human to another (no tick as yet).



The real worry is that an established animal reservoir of bird flu is giving the virus many chances to infect humans. If it infects a human who is also carrying a human flu virus, the two viruses are liable to “re-assort” in the victim, shuffling their genes to create a new strain. Potentially, such a new strain might supply the third tick, combining the lethality of the bird virus with the ability to spread easily among humans supplied by the human one. The longer H5N1 sticks around, the higher the chance of this happening. Another possibility is that as the virus spreads among poultry it will gradually evolve into something that is easier for humans to catch. Work so far has shown that H5N1 has become progressively more infectious in poultry, and that it is expanding its host range. Last October it affected

147 tigers in a zoo near Bangkok (they caught it from the chicken carcasses they were fed).

However, the fact that a human pandemic has not yet emerged from such a breeding ground is also important. For the time being, the virus does not seem to infect humans readily. Among the several thousands of farmers who have come into contact with infected birds, fewer than 100 cases have been detected. What is more, very few of them, if any, have caught the disease from other people, rather than birds. On the other hand, bird flu is lethal in humans. Roughly two out of three infected humans have died.

Scientists talk about “when” not “if” a human flu pandemic will happen. It is not possible to predict whether one will emerge from the avian H5N1 influenza, or if it will be highly lethal. But the viruses that caused the three biggest flu pandemics of the past century are all thought to have derived, at least in part, from avian strains. The worst of these outbreaks, in the aftermath of the first world war, infected as many as one in four of the world's population, and claimed more than 40m lives.

The World Health Organisation's (WHO) models suggest that in a best case, a pandemic of H5N1 would kill between 2m and 7.4m. But then there would also be 1.2 billion people sick and 28m hospitalised. If this sounds bad, then gloomier estimates have projected death tolls as high as 60m. These estimates vary, of course, depending on what assumption is made about the inherent lethality of the virus—something that nobody can predict.

The economic impact would be vast. Already one estimate suggests the crisis in Asia has caused more than $10 billion of damage to the economies of the most seriously affected countries. This would pale into insignificance if there were to be a human pandemic.

What is to be done?

Governments in many parts of the world are already discussing how they might respond to such threats. One possibility is to use antiviral drugs to treat people who fall ill. This would reduce the symptoms and the mortality rate. Twelve countries have now placed firm orders to stockpile a new antiviral drug, oseltamivir (Tamiflu), and another 12 countries are negotiating to buy it. But the drug is expensive, so only a few countries will be able to afford it for a small proportion of their populations. The high cost of the drug has already prompted Thailand to consider producing its own supply, under emergency licensing laws, in the case of a health emergency. In any case, at current rates of production it will take several years before the drug's manufacturer, Roche, is able to meet all this demand. Even rich countries will have to wait for their orders to be filled.

While antivirals may have a role as a form of treatment in the countries that can afford them, preventative vaccines are widely regarded as the most useful intervention for dealing with flu pandemics. A number of countries are now working on a vaccine for bird flu, and trials of one H5N1 vaccine began this month in America. But vaccine development takes time, and there is a lack of production capacity. What capacity exists is concentrated in Australia, Europe, Japan and North America. When a global pandemic begins, says a recent WHO report, countries with domestic manufacturing are expected to reserve scarce supplies for their own citizens before exporting it to meet international needs.

During a pandemic the health-care systems of all countries are expected to be overwhelmed. This will place limits on the efficacy of emergency international humanitarian assistance. Vaccines against H5N1 could be stockpiled, although this will take time and money, and there is no guarantee that it will work against what emerges. Besides, bird flu may not be the start of a human pandemic at all. For poor countries this leaves some very tough choices. As the tsunami in Asia at the end of last year tragically demonstrated, it is always hard to put a priority on spending for unpredictable events—even possibly catastrophic ones.

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About sponsorship

China and Japan

The genie escapes

Apr 14th 2005 | BEIJING
From The Economist print edition

China's anti-Japan protesters are a big problem for both countries

AFP

Hold the sushi

"IT'S a scary country," Japan's trade minister, Shoichi Nakagawa, said of China this week, following demonstrations in several Chinese cities by thousands of protesters, some of whom smashed the windows of Japanese shops and restaurants and threw stones at Japanese diplomatic buildings. For all their seeming reluctance to quell the unrest, Chinese leaders probably find it scary too.

The protests first turned violent in the south-western city of Chengdu on April 2nd, and erupted with particular fury in Beijing a week later. They were the biggest to take place in China since tens of thousands took to the streets across the country in 1999 in response to the bombing of China's Belgrade embassy by American aircraft during the Kosovo war. Those protests, initially condoned by the authorities, fizzled out after three or four days, when the government made it clear that enough was enough. This time the government appears more hesitant. Some Chinese activists predict further disturbances.

The big difference is that this time Japan is the target. In a country where public protest is usually quickly suppressed, anti-Japanese sentiment has proved hard for the authorities to handle. The party bases its legitimacy in part on its (somewhat overstated) record of fighting Japanese occupation forces in the 1930s and 1940s. It traces its intellectual origins to a movement inspired by anti-Japanese protests in 1919. Animosity towards Japan is regarded as the hallmark of a patriot.

The authorities' dilemma is reflected in their handling of these protests, which began as a show of opposition (on the grounds that Japan has failed to show sufficient contrition for its wartime atrocities) to Japan's campaign for a permanent seat on the UN Security Council. They were fuelled by a decision by Japan's education ministry to approve a school textbook (unlikely to be widely adopted) that plays down the extent of the atrocities. Chinese officials expressed outrage at the book, but quietly banned coverage of the protests in the Chinese-language media. Calls for a boycott of Japanese goods, widely circulated on the internet, also went unreported in the state-controlled press.

In Beijing, the authorities mobilised thousands of police and paramilitary troops to guard the Japanese embassy and ambassador's residence, and to patrol the route of the march. Yet the security forces took no action as protesters threw stones and plastic water bottles at the diplomatic buildings and overturned a car. Activists say the protests were unauthorised. In China, this makes them illegal. Yet no arrests have been reported in connection with the Beijing protests. A foreign-ministry spokesman said that it was up to Japan to "reflect carefully" on how to prevent "the situation getting out of control".

The burden of the past

Chinese officials are doubtless thinking carefully too. On April 13th, Japan said it would soon allow Japanese gas companies to explore in an area of the East China Sea claimed by both countries, a move that will further rile Chinese nationalists. And the year is replete with potential flashpoints: May 4th (the anniversary of the 1919 protests), July 7th (Japan's full-scale invasion of China in 1937); the 60th anniversary on August 15th of Japan's surrender and September 18th (the Japanese occupation of Manchuria in 1931).

So far, the business impact of the protests and boycott calls appears limited. But the products of some companies, such as Asahi, a beer manufacturer, and Ajinomoto, a food-maker, which have been accused by protesters of supporting the textbook revisions (the companies deny it), have been removed from some shops.

China's government worries that if it is seen as too weak towards Japan, or cracks down too hard, the protesters could turn against the party. In the last century, pro-democracy unrest in China was often closely linked with patriotic demonstrations. Many participants in the recent protests have been university students, a group kept under particularly close watch by the authorities since the student-led protests in Tiananmen Square in 1989. The internet and mobile phones have enabled rapid mobilisation (organisers say more than 20m people have signed an electronic petition against Japan's UN bid). The nationalist genie, once unbottled, could prove hard for China to restrain.

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China and India

Too early to tell

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A much-vaunted Sino-Indian "strategic partnership" is only in its infancy

REPRESENTING two ancient civilisations, leaders of both India and China like to take the long view. So when China's prime minister, Wen Jiabao, visited India this week, and he and his Indian counterpart, Manmohan Singh, were both quoted as describing the occasion as "historic", they were probably looking well into the future. In that perspective, co-operation between Asia's giants, accounting for 38% of the world's population, may indeed change the world and amount to the "strategic partnership" they have proclaimed. In the short term, however, the foundation of this partnership—a settling of political differences and closer economic ties—is still under construction.

The chief reason for euphoria was an accord covering the territorial disputes over which the two countries fought a war in 1962 and which have soured relations ever since. In 1988, they set the row to one side, parked in slow-moving technical talks, so that ties could improve in other areas, as they have, especially since Mr Singh's predecessor, Atal Behari Vajpayee, visited China in 2003.

This week the neighbours moved from an agreement to disagree about the border to an agreement to try to agree. It accepts the principle of a "package settlement", covering all sectors. This is code for what has long seemed the only feasible solution: something not far from the status quo. China would drop its claim to the Indian state of Arunachal Pradesh, and India would accept China's rule in part of Ladakh. There would be some adjustments to the borders there and elsewhere.

Not yet, however. The two countries have merely agreed that their representatives will consult "in an earnest manner". However, this does mark an effort to establish strategic trust. Mr Wen also did his bit by presenting maps showing Sikkim, a Himalayan kingdom annexed by India in 1975, as part of India, a position China has never formally recognised.

Indian officials and newspapers were so carried away by it all that they even reported that China had backed India's bid for a permanent seat on the United Nations Security Council. In fact, in the joint statement issued during the visit, it did not. Rather, it attached "great importance to the status of India in international affairs." This is a far cry from its objections to Japan's similar bid, but is hardly a ringing endorsement. China enjoys very close relations with Pakistan, where Mr Wen started his South Asian

tour, and which opposes India's UN ambitions.

The other pillar of the putative new partnership is economic. Mr Wen landed in Bangalore, hub of India's booming information-technology industry. It was a chance to make the fashionable point that with Indian software as the score and Chinese hardware as the instrument, there is beautiful economic music to be made. For the time being, however, two-way trade, which soared by 80% to reach $13.6 billion last year, is based just as much on China's hunger for raw materials, such as iron ore, steel and chemicals, to fuel its continuing breakneck growth.

There is still huge untapped potential in bilateral trade, investment and tourism. The two countries agreed to consider a “regional trading arrangement” to promote these. Indian business has just got used to the idea that China may be as much an opportunity as a threat. It is already India's second-largest trade partner after America, though India accounts for only 1.2% of China's trade. Indian fears of an economic invasion persist, even as the military threat has faded. Free bilateral trade may be as distant as true strategic partnership.

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Afghanistan

Fewer poppies, for the present

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From The Economist print edition

Why Afghan farmers may produce less opium, this year at least

IN APRIL last year, fields of nodding opium poppies lined every major road in Nangarhar, in eastern Afghanistan. The province produced more opium than any other, contributing to the second-biggest crop in the country's history—and 90% of the world's harvest. This year, Nangarhar's fields are more likely to be growing wheat, or lying fallow. By one estimate, the province has seen a 70% decrease in the area sown with poppies. Can it be that Hamid Karzai, the country's first democratically elected president, has at last begun to turn back the floral tide?

Two surveys released last month—by Britain and the United Nations' drugs agency (UNODC)—suggest this might be so. The British surveyed some 250 farmers across five provinces. They found that nine out of ten had grown poppies last year, but fewer than four out of ten were growing them this year. A mere 6% of the farmers' cultivable land had been sown with poppy seed, compared with 34% last year. The UN survey ranged wider, and found poppy cultivation static or down in all but five of Afghanistan's 32 provinces.

Mr Karzai, who declared a *jihad* against opium after his election last October, can take some credit for the promised success. The British study attributed the growing reluctance of Afghans to plant poppy primarily to a belief that the government was “more serious this year in its intent to reduce poppy cultivation.”

After three years of thumb-twiddling since the Taliban's demise, the government and its foreign backers have adopted credible counter-narcotics strategies. Last year, the provincial governors eradicated some 3,000 hectares (7,400 acres) of opium crop, in a scheme that was patchily observed and riven with corruption. This year, after stern words from Mr Karzai, some of the governors have been more effective—as the UN will soon try to verify. In Nangarhar, the police chief of the provincial capital, a former warlord called Hazrat Ali, says he has sacked several local police chiefs for failing to enforce the ban.

Last year, a separate eradication team—trained by an American security company—was a shambles. Farmers sowed their fields with landmines and rocketed the team's camp. Now, the counter-narcotics men are better equipped. A unit trained by Britain's elite Special Air Service has proved a quieter and more deadly success. It was responsible for most of the 75 tonnes of opiates seized by the government in the last year, and for destroying some 80 heroin laboratories. Even so, there was a shoot-out near Kandahar this week.

The British study concluded that it is not interdiction attempts that have encouraged farmers to abandon poppies. Rather, many farmers expect the government to reward them for giving up the crop. In Nangarhar, for example, the report found that “local power-brokers” had bribed farmers to abandon poppies with a promise of lots of aid. Western aid agencies recently gave warning that with $300m of aid pledged to eradicating poppies, but only $120m to secure alternative livelihoods, such promises were unrealistic. So the British report concedes that there is “a strong potential” for a resurgence in cultivation in the province in 2005-06.

One reason for caution is that across Afghanistan last year many farmers grew poppy for the first time, with little skill, in unfavourable soils and in places too remote for the main drug traffickers to get to. All these farmers could abandon the crop without the overall yield falling dramatically. Indeed, given fair growing conditions, it could even rise; only a number of devastating poppy blights stopped last year's crop from being the biggest ever.

Another reason to be cautious is that Afghan opium dealers have shown a remarkable deftness in their manipulation of the market. In the year before its demise, the Taliban regime banned opium cultivation, enforcing the prohibition by both bullying and bribing farmers with false promises. This pushed up prices—and therefore the value of the regime's own stockpiles. With many dealers still at large, a similar manipulation may be under way. They typically guarantee their supply by advancing cash to growers before the planting season. This year, suspiciously, none of the farmers questioned by the British admitted receiving any advance. The opium war is very far from won.

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Pakistan

Thou shalt not have fun

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Dark days for tolerance and kites

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THE mullahs are alive and kicking in Pakistan. Brandishing sticks and spikes, a few hundred of them last week stormed a public stadium in the town of Gujranwala in Punjab province and forced the cancellation of a “mini-marathon” sporting event. They were protesting at the “mixing” of the sexes, even though the few brave women in the crowd were modestly attired in baggy trousers and headscarves. The police arrested about 40 of the bearded faithful, who belonged to the Muttahida Majlis i-Amal (MMA), the six-party religious alliance that is demanding the ouster of President Pervez Musharraf for being “pro-West” and “secular”.

The Punjab government's chief minister, Pervez Elahi, thundered that the men would be tried as “terrorists” and the local parliament duly passed a resolution to that effect. But when the MMA threatened violent action elsewhere, the government beat a hasty retreat. It cancelled similar events planned across the province, or banned women from taking part in them along with men.

This is the second time in recent weeks that the government of General Musharraf has caved in before the Islamists. After months of prevarication, the government meekly gave in a fortnight ago to a demand that the new machine-readable Pakistani passport should note a person's religious status. The decision struck most as odd, since the first page of the passport complies with international specifications and has no space for another column on religion. Now hundreds of thousands of passports are being recalled.

Six months ago, Islamists had rampaged across the country defacing and slashing thousands of advertising billboards featuring modestly clad women. The MMA refuses to allow Pakistan's parliament to amend the blasphemy law, the source of much mischief against religious minorities, and it defends the practice of “honour killings” of women as an Islamic custom.

Having tasted blood, the MMA has now moved a bill in parliament against “objectionable” and “obscene” anti-Islamic practices in the country. Liberals fear that at this rate of official capitulation, mixed gatherings such as New Year's Eve parties and the kite-flying festival of Basant in February will soon come under vigilante attack.

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Côte d'Ivoire

A perilous peace deal

Apr 14th 2005 | ABIDJAN
From The Economist print edition

AFP

Will a new deal bring peace? South Africa thinks so. Ivorians are not so sure

Get article background

AN IVORIAN peace deal is usually a joyous affair. Handshakes and backslaps are de rigueur, among politicians and rebel chiefs who at other times make no effort to hide their mutual loathing. But last week in South Africa, as Côte d'Ivoire's five most powerful men signed yet another agreement to end a civil war that has lasted two-and-a-half years, there were few smiles. This deal, many Ivorians believe, is their last chance to avoid disaster.

Côte d'Ivoire has been split since September 2002, when rebels now known as the New Forces seized control of the northern half of the country. Their grievance was that a government dominated by southerners was seeking to deprive northerners of their land and votes by declaring them to be foreign. President Laurent Gbagbo, a southerner, has won popular support mostly by appealing to southerners' fear of northerners and foreigners, which makes it hard for him to make peace with northern rebels.

Nonetheless, the South African government, which brokered the deal, is confident that it will succeed. South Africa's deputy foreign minister, Aziz Pahad, crowed that South Africa had achieved more in four months than the UN had in more than two years. The grim-faced signatories praised the deal. Mr Gbagbo said he was happy with the rebels' apparent commitment to disarm (although they have missed previous deadlines for disarming, and are already back-pedalling from this commitment).

The New Forces and the unarmed opposition, meanwhile, said they were delighted with a number of decisions. The UN will oversee a fresh presidential election in October. The country's Independent Electoral Commission will include more opposition types. Mr Gbagbo promised to shut down the various militias who support his cause and whose techniques include torching the houses of northerners living in the south. A moribund government of national reconciliation is to be revived, with rebel leaders returning to ministerial portfolios they quit just before the ceasefire last broke down, in November. All sides have renounced war.

So far, the South Africans' optimism seems justified. But observers fear that the same errors that scuppered previous agreements are also visible in the six-page Pretoria accord. For a start, there is no

mention of penalties for parties that break their word. In the past, the UN has threatened to slap sanctions on individuals who obstruct the peace process, though at the urging of South Africa's president, Thabo Mbeki, it did not follow through.

Because of both sides' record of finding reasons to renege, the latest deal provides that any disputes over interpretation be referred to Mr Mbeki. But despite this provision, the toughest issue remains unsolved. At the last presidential election, in 2000, most would-be candidates were barred from standing.

The case that rankles most is that of Alassane Ouattara, a former prime minister who is now the main northern opposition leader, who was struck off the list on the ground that one of his parents was “foreign”. His supporters see this, understandably, as an attempt by southern politicians to rig the game in their own favour. The New Forces have said they will not lay down their weapons until Mr Ouattara is allowed to run for president.

The Pretoria accord lets Mr Mbeki decide the issue. This week he sent a letter to all the Ivorian politicians who had signed an earlier agreement in 2003, asking for Mr Gbagbo to use special presidential powers to change the constitution in order to let all those who had signed that earlier deal stand for president.

Mr Gbagbo has yet to decide whether to go along with this recommendation, which is not, he says, binding. If he agrees that Mr Ouattara should run, the many Ivorians who consider him a dangerous foreigner will be outraged, and will probably take to the streets. If not, the rebels will hang on to their arms.

All this has regional repercussions. In the past decade, West Africa has endured a series of overlapping civil wars. Governments in Guinea, Liberia and Côte d'Ivoire have backed rebellions in neighbouring countries which have in turn retaliated. A class of roving mercenaries has emerged, many of them children, who go wherever the spoils look juiciest.

In a new report, the International Crisis Group, a lobby group, recounts interviews with 60 West African ex-fighters. Most had fought with at least two armed groups. Few could articulate a political objective. Two out of three of the Liberians interviewed had been asked to join “missions” in Guinea or Côte d'Ivoire. Most of those who went to Côte d'Ivoire apparently joined government militias.

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Uganda

A long-standing leader's mixed legacy

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Uganda's president, Yoweri Museveni, thinks he is the man to safeguard his own admirable legacy. Is he?

THE man who brought peace and growth to Uganda, President Yoweri Museveni, has been in power for 19 years. The constitution says he must retire next year, but his supporters are clamouring for him to stay. Parliament may amend the constitution to allow him to. Is this a good idea? How many rulers, anywhere, have done a good job during their third decade at the helm?

“Lee Kuan Yew,” offers Moses Byaruhanga, an adviser to Mr Museveni. Good answer. Anyone else? “Julius Nyerere,” offers Sam Kutesa, Mr Museveni's foreign minister. This is less convincing. The leader of Tanzania (and earlier, Tanganyika) between 1961 and 1985 may have united his country, but he also bankrupted it by forcing peasants into collectives. And the world's longest-serving heads of government are almost uniformly awful. Africa's senior five are true dinosaurs: Omar Bongo of Gabon, Muammar Qaddafi of Libya, José Eduardo dos Santos of Angola, Teodoro Obiang Nguema of Equatorial Guinea and Robert Mugabe of Zimbabwe.

His supporters insist that Mr Museveni will be different. To be fair, his record so far has been impressive. When he seized power in 1986 Uganda was a wreck, having endured a decade-and-a-half of murderous tyranny and civil war under Presidents Idi Amin and Milton Obote. Mr Museveni restored order. His pragmatic, business-friendly policies unleashed a sustained economic boom. And his government has had more success than any other in curbing AIDS. Small wonder that western donors love Uganda.

Those donors have complaints, however. Although Mr Museveni allows a reasonably free press, he has long suppressed multi-party politics. His excuse was always that parties would be tribal, and therefore dangerously divisive. In 2003, under pressure from donors, he relented and said he would lift restrictions on parties. Various parties now operate a bit more freely. Parliament, which is dominated by Mr Museveni's National Resistance Movement, is expected to vote soon on whether formally to adopt a multi-party system. Well and good, but Mr Museveni's people are also hoping to take this opportunity to get rid of presidential-term limits. Voters who want more political freedom may also have to accept that Mr Museveni can keep on running.

Mr Museveni's spokespeople say he has not yet decided whether to run again, but the masses, who drape themselves in dry banana leaves to show their support, are eager for him to carry on. That's a little disingenuous: Mr Museveni has sidelined former allies who advised him to retire, and he has not picked a successor.

Donors are worried. This matters, since aid inflows are equivalent to about half of the government's budget. Mr Museveni talks of the need for Uganda to wean itself off aid, but he has shown few signs of turning down the cash. The economy continues to grow quite fast; a recent slowing was largely due to unfavourable coffee and oil prices. But if donors were to grow disillusioned and turn off the taps, the shock would be immense.

Regimes that stay in power too long are usually corrupted. Mr Museveni's is nowhere near as bad as its predecessors, but neither is it a paragon. The public payroll is bloated, as is the cabinet. Voters, especially rural ones, expect cash handouts before elections. In April, Mr Museveni promised to curb corruption in the army, where what he called “weevil” officers pocket salaries of soldiers who are dead or have deserted. Amama Mbabazi, the defence minister, says that the army has now been all but purged of such “ghosts”, and that the officers responsible will be punished even if they have political connections.

Another concern is that even if the laws governing political dissent grow more liberal, the state's attitude to dissidents is often anything but. Human Rights Watch (HRW), a lobby group, reported last year that opposition activists were routinely tortured. Typically, they were taken to secret “safe houses” and beaten with hammers or forced to lie under running taps with their mouths open. An informal survey at one prison where “political” prisoners are held indicated that 90% had been tortured, according to HRW. Mr Kutesa dismisses the allegations and denies that the government tortures anyone.

Even Mr Museveni's approach to fighting AIDS has come under fire. HRW claims that, under pressure from the United States, Uganda has forsaken the old, successful message of “ABC” (Abstain, or Be faithful, or use a Condom). Instead, HRW says, the government now emphasises abstinence above all else. Ugandan evangelicals, including Mr Museveni's wife, campaign against condoms, arguing that their promotion encourages promiscuity. But the government denies that it has abandoned condoms or changed what it calls a balanced policy.

Thanks to stability and Mr Museveni's liberal economic policies, the proportion of Ugandans living in absolute poverty fell from over 50% in 1994 to 33% in 2000. However, it then crept back up to 38% by 2003. Two out of three Ugandans still depend on subsistence farming, and fewer than one in ten have electricity. A 19-year-old rebel insurgency continues to blight the north of the country, which Mr Museveni has been unable to quell despite hefty military spending.

Even Mr Museveni's admirers wonder whether he is the right man to safeguard his own legacy. Last month, Bob Geldof, a former rock star who now campaigns for more aid to Africa, said: “Get a grip Museveni, your time is up. Go away.” Outraged demonstrators in Kampala, the Ugandan capital, advised Mr Geldof to sober up and shut up, adding that Ugandans rejected “drug addicts and rock homos” (an inaccurate description of Mr Geldof). But other demonstrators applauded the rocker. The government has said it wants no more demonstrations for a while.

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Nelson Mandela's legacy

What's in a name?

Apr 14th 2005 | JOHANNESBURG
From The Economist print edition

Everyone wants a piece of South Africa's icon

Reuters

A hero, not an accountant

HIS name is one of the world's most admired, so it is hardly surprising that Nelson Mandela values it. South Africa's former president is reportedly about to sue Ismail Ayob, his solicitor of more than 20 years (until last year), for allegedly misusing the Mandela name. George Bizos, a barrister who has also long worked for Mr Mandela, says that a case is being prepared to protect “Mr Mandela's name and reputation”.

It is a complicated one. Mr Ayob and a colleague used to have permission to sell paintings that bore Mr Mandela's signature, as long as the profits went to various Mandela foundations that do good deeds such as building schools, fighting AIDS and promoting democracy. Mr Bizos told *Business Day*, a South African newspaper, that such permission was withdrawn 18 months ago, but Mr Ayob continued to sell the pictures.

A company connected with Mr Ayob and some of Mr Mandela's children reportedly earned 13m rand (just over $2m) from an earlier venture involving artwork signed by Mr Mandela. South African papers are speculating that not all the money that should have been paid to Mr Mandela's charities was. Mr Ayob was quoted as saying: “At no stage have I benefited or done anything improper.”

It is not the first squabble over the Mandela name. In December a high court ordered a local firm to stop selling coins bearing it. The country is awash with Mandela T-shirts, fridge magnets, pillows and paintings. Many, if not most, are unauthorised.

Mr Mandela's charities, meanwhile, continue to grow. John Samuel of the Nelson Mandela Foundation (NMF) says he wants to raise a $500m endowment while Madiba, as he is known, can still press the flesh and pose for photographs. Financial security would help the three foundations endorsed by Mr Mandela to remain independent after he is gone (he is 86). Mr Samuel says he wants the NMF to promote democratic debate. Last year it gave a platform to Archbishop Desmond Tutu, who controversially raised concerns that the ruling party, of which Mr Mandela is a member, was getting too powerful.

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Iraq

At last, nearly a government

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From The Economist print edition

Will so inclusive a government be a magnet for dissidents—or just weak?

MONTHS of bickering between Iraq's main electoral alliances seemed to be nearing an end with the appointment last week of a Sunni Arab, Hajem al-Hassani, as parliament's speaker. The log-jam thus broken, Jalal Talabani, a Kurd, was fast endorsed as Iraq's largely ceremonial president, while Ibrahim al-Jaafari, a mildly Islamist Shia from the winning United Iraqi Alliance (UIA), often known simply as the "Shia list", was nominated as prime minister. The interim constitution gives Dr Jaafari until early next month to form his cabinet. Most top ministries have already been agreed upon. At last, a government seems likely to be in place soon, perhaps by next week. Whether it will be effective is another matter.

It is set to embrace most of the main electoral blocks that ran in the elections. The Shia list, which got 140 of parliament's 275 seats, will get the lion's share of ministries, perhaps including finance, interior and oil. The Kurds will oversee foreign affairs, while a Sunni Arab is expected to run defence. The 40-seat Iraqi list headed by the outgoing prime minister, Iyad Allawi, a secular-minded Shia, will have four ministries. A more liberal Shia, Ahmed Chalabi, who started off as the American neo-conservatives' candidate for the top job but who has more recently been playing footsie with all and sundry, including the Shia followers of a firebrand cleric, Muqtada al-Sadr, is likely to get a post too.

Some guess that this emerging government of all stripes may not be strong or cohesive. Experience since the fall of Saddam Hussein suggests that parties treat ministries as fiefs for packing with placemen and dispensing patronage. Dr Jaafari heads just one bit, the Dawa party, of a diverse Shia alliance. His main rival for the post of prime minister, Adel Abd al-Mahdi, a Maoist turned liberal Islamist, who belongs to the Supreme Council for Islamic Revolution in Iraq (SCIRI), was considered by some to have insufficiently Islamist credentials. It is not yet clear how zealously Dr Jaafari will seek to impose an Islamist agenda. The Kurds, in particular, will bellyache if he does.

The Americans also worry that the UIA might tamper with the revamped security forces, which, after a very patchy start under American tutelage, have gradually been turned into a more effective force of 100 battalions that now often stands its ground in the face of rebel attacks and has begun to conduct its own offensives. Key to this success, say the Americans, has been the promotion of proven leaders who are veteran officers of Mr Hussein's army and were also members of his Baath party.

Now, however, some Shias, particularly those in SCIRI, want to purge all former Baathists from the forces, on suspicion that they secretly help the insurgents. SCIRI's opponents say this is just a pretext for stuffing the security forces with its own militia, the Iranian-trained Badr brigade. The American secretary of defence, Donald Rumsfeld, in Baghdad this week, warned the new government against trying to "clean house" while seeking to "defeat a doggone insurgency".

Yet the wide-ranging inclusiveness of the new government, though bound to make for fractiousness, carries benefits too. Above all, it shows that politics in the new Iraq is not just winner-takes-all; most groups that take part get rewarded, a lesson not lost on Sunni Arabs sympathetic to the insurgents. For the time being, though, they are likely to go unrepresented in government, since most of the Sunnis set to be included have been linked to opposition or exile groups that fought Mr Hussein.

Six months ago, Sunnis connected to the old order were less bothered by the government's hostility to them, since the tide of insurgency seemed to be running their way. But since the election in January, it has ebbed—and more Sunnis have come to regret their boycott of the poll. More recently some 60 clergymen on the influential Muslim Scholars' Board, which encouraged the boycott, have issued a *fatwa* urging their co-religionists to join the army and police force, so long as they do not "co-operate with the

occupier against the people". Though some board members disavowed the *fatwa*, it shows that quite a few rejectionists now want to take part peacefully in the new politics.

The Americans say that to keep up this momentum the parliament should meet a deadline for the constitution to be drafted by August, allowing for fresh elections in December. However, given the deep differences between Shias, Kurds and others over the role of Islam, the extent of federalism and the status of the disputed province of Kirkuk, the government may have to invoke a law that allows for a six-month extension, beyond the August deadline.

Meanwhile, Mr Talabani says that in order to bring Sunnis in from the cold he wants to offer an amnesty to any rebel not guilty of targeting Iraqi civilians. One snag is that the Americans are loth to endorse any plan under which people who have killed American troops are pardoned. In any event, guerrillas who accepted an amnesty would probably be more afraid of being shot dead by a relation of one of their victims than of being put on trial.

But at least there is a sense that Iraq's new rulers have a chance of reaching out to some of the rebels. Despite its frustratingly cumbersome birth, the incoming government plainly has a fund of popular goodwill. It must capitalise on it, fast.

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America and the Middle East

A spat, of sorts

Apr 14th 2005
From The Economist print edition

Israel's Ariel Sharon has had an amiable meeting with George Bush. Mahmoud Abbas, the Palestinian leader, badly needs the same thing

AP

Not too prickly, this time

DIPLOMATS call it “constructive ambiguity”: wording an agreement—or a disagreement—so as to disguise the fact that there wasn't one. This week George Bush and Ariel Sharon showed their mastery of the technique. At a chummy confab at his Texas ranch, Mr Bush appeared to rebuke Israel's prime minister for not stopping settlement-building in the West Bank. Much has been made of the fact that Mr Sharon appeared to ignore him. But in reality there was little to ignore.

The meeting was important for Mr Sharon. Both he and Mahmoud Abbas (Abu Mazen), the Palestinian president, were due this month to visit Mr Bush and seek his blessing for their efforts since their own summit in Sharm el-Sheikh in February. Mr Sharon went to Texas with a black mark in his book: the “E-1 Plan”, which his government revived last month, and which calls for the building of 3,500 new houses between East Jerusalem and Maale Adumim (one of the largest settlements, a few minutes' drive to the east of the capital), to consolidate Israel's hold on that block of West Bank settlements. Notwithstanding Israel's reassurances that the plan is still on paper, several others, in other settlements, are already far more advanced.

But Mr Sharon also had something to show since Sharm: success in steering his Gaza withdrawal plan through Israel's parliament, the Knesset, and keeping his governing coalition alive, despite stiff opposition both in his party and outside it. Now, belatedly but energetically, the government is forging ahead with the preparations for the withdrawal, approving compensation payments to the settlers and looking for new lands for them to move to. That is starting to distil the reluctantly acquiescent majority of them from the hardcore opponents, who have staged noisy but notably small protests in the last few days; the zealots who blocked a highway with burning tyres and tried to disrupt Muslim prayers on Temple Mount in Jerusalem at the start of this week numbered mere dozens.

In other words, Mr Sharon is so far achieving exactly what he promised. At the president's Prairie Chapel Ranch, he got his reward. Mr Bush praised the Gaza pullout, expressed his “concern” at the settlement-building and reminded Israel that it must stick to the international “road map” peace plan. That meant “no expansion of settlements”, he said three times, pointedly failing to note that the road map actually stipulates no construction of any kind; according to Israel, building within existing settlement boundaries, themselves broad and sometimes fuzzy, is not “expansion”. In the same breath, he repeated his support for Israel's holding on to the main settlement blocks, where three-quarters of the West Bank settlers live. Mr Sharon, who reiterated that claim himself, agreed, as he has before, that Israel “will also meet all its obligations under the road map,” but only after the Palestinian front was “completely quiet”.

Mr Abbas, on the other hand, is struggling to make good on his end of the bargain, namely ending Palestinian violence. His preferred method of doing so, given the militants' popularity and his shambolic security forces, has been not a crackdown but a ceasefire, negotiated with 13 militant factions. That has held relatively well (this week there was a volley of rockets in response to the Israeli army's killing of three Palestinian youths near the border fence, but both sides refrained from taking things any further). But his attempts at reforming the security services, as well as his inability to reach deals with Israel on

prisoners and wanted fugitives, have bred resistance. Gunmen within his own Fatah party have staged a series of shoot-ups.

This has allowed Israel to turn up the pressure on Mr Abbas with its frequent claim that he is not doing enough about security. Last week he appeared to move, replacing some top commanders and setting in motion a retirement scheme for older officers. But it is far from the crackdown that Israel is demanding. Worse still, it looks bad to Palestinians: Mr Abbas is managing to appear both ineffectual and submissive to Israeli demands.

It speaks volumes, therefore, that no date has yet been set for Mr Abbas's mooted visit to the United States. This week Mr Bush is sending two envoys to find ways of strengthening Mr Abbas. To look fair, Mr Bush needs to give him no less support than he gave Mr Sharon. For his part, the Palestinian leader has to turn up with a solid achievement on security—otherwise giving him the presidential blessing will take more constructive ambiguity than even Mr Bush is capable of.

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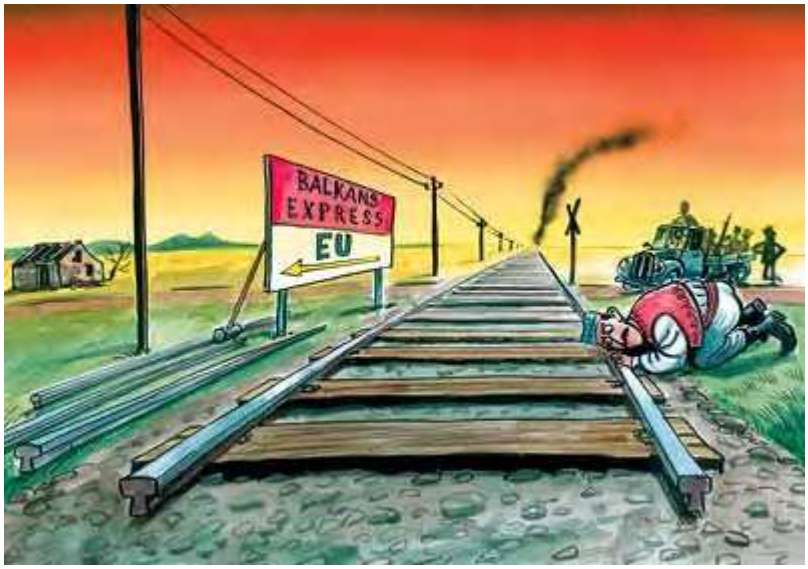
Balkans

Waiting for the European train

Apr 14th 2005 | BELGRADE, PODGORICA AND PRISTINA
From The Economist print edition



The European Union gets more serious over possible membership for Serbia and the other countries of the western Balkans

Get article background

RANKO KRIVOKAPIC, speaker of Montenegro's parliament, sums up the mood: “no more *mañanas*!” He means that nothing will put Montenegro off its proposed referendum on independence next year. But he might be talking of the whole region. Almost 15 years after Yugoslavia began its descent into hell, there is a new determination, both on the ground and in Brussels, to ensure that the countries of the western Balkans head towards membership of the European Union, rather than drifting further into isolation and poverty.

The fashionable metaphor in the Balkans, as so often in the EU, employs trains. On April 12th Serbia and Montenegro were seen to have boarded a train for Brussels, when an EU feasibility study deemed their loose federation worthy to start accession talks. The next day the European Parliament cleared away one of the last obstacles to EU membership for Bulgaria and Romania, probably in 2007.

The feasibility study recognises that big reforms are under way in Serbia. It also rewards Serbia for its co-operation with the war-crimes tribunal in The Hague. The government of Vojislav Kostunica, which came to power in March 2004, saw the tribunal as a kangaroo court for Serbs. One year on, it has been bundling indictees to The Hague as fast as it can: over the past few months 13 Serbs and Bosnian Serbs have been sent for trial.

Yet even after such a favourable study, Serbian leaders have no illusions. Last month Croatia, years ahead of Serbia in preparations for the EU, ran into the buffers because of its failure to arrest General Ante Gotovina. It has been made clear to Serbia that all its indictees must also go for trial—including Ratko Mladic, the Bosnian Serb wartime general.

For Serbia, war criminals may be the easy bit. Far more contentious is Kosovo. Technically, the UN-run province remains part of Serbia. But over 90% of Kosovo's 2m people are ethnic Albanians, who will

settle for nothing short of independence. For six years Kosovo has lingered under UN control, as western policymakers hoped the problem would go away. Since the March 2004 riots by ethnic Albanians, it has been clear that it will not.

Over the next few months two reports on Kosovo are due to be presented to the UN Security Council. If they paint a generally positive picture, Kofi Annan, the UN secretary-general, will appoint a “status envoy” to shuttle between Belgrade and Pristina, talking over what is now being dubbed Kosovo's “future”, not its “final status”. The envoy will probably be a former politician well acquainted with the Balkans. One possibility is Giuliano Amato, a former Italian prime minister who chaired an international commission on the Balkans that released its report this week. The report advocates Kosovo's independence, to be achieved in four stages.

On Kosovo, at least, there are no longer big differences between Europe and America. Moreover, if prodded, Serbia and Kosovo's ethnic Albanians could probably agree on large parts of a future constitution for Kosovo. The problem, says a Kosovar politician and analyst, Veton Surroi, will lie in the first article, which will lay down whether Kosovo is an independent state or is part of Serbia. Since neither side will agree, American and EU diplomats are now mulling the idea of imposing a final status for Kosovo without the acquiescence of both parties.

Such an imposed settlement might include several elements. One is that independence would be conditional for years to come. Troops from NATO would stay on to guarantee security. The UN's job would probably be phased out, but a proconsular role could be created, resembling the job now held in Bosnia by Lord Ashdown, who has powers to sack local politicians. Serbian areas of Kosovo would be given a large degree of autonomy and Serbs would have the right to dual citizenship.

Judging by the past, some fear that Russia would act in the UN Security Council to block such an imposed deal. But maybe not, believe diplomats who have met the Russians to discuss Kosovo. They might go along with rather than oppose the plan—and risk their weakness being exposed if their objections are then ignored.

Bajram Kosumi, Kosovo's new prime minister, objects to any conditions being placed on Kosovo's independence, as indeed to any UN envoy discussing its status Kosovo with Belgrade. But if some conditions are a necessary price to pay for Kosovo's independence, he is unlikely to scupper the deal. Serbia's leaders say they will accept “more than autonomy but less than independence”. They also say that imposed independence for Kosovo might mean radical nationalists taking over in Belgrade—and creating instability for decades to come. Yet this need not happen if the deal is crafted to include compensations for Serbia: for instance, a fast track towards EU membership, or concessions on such matters as visas for foreign travel.

One idea is to impose a deal that can be presented differently in Belgrade and Pristina. To soften the blow of its independence, Montenegro has offered Serbia the idea of an “alliance of independent states”. Symbolically this might have value, but in practice it would be an empty shell. Yet slot in Kosovo, call it something else, make the benefits of association with the EU available—and the western Balkan train (with Bosnia and Albania hitched behind) might just chug to Brussels by 2014.

The European Union is suffering from enlargement fatigue, and fretting over the fate of its draft constitution. There is little enthusiasm for the entry of Romania and Bulgaria, or Turkey—let alone any of the western Balkans. But EU leaders are also slowly coming to realise that it is better to absorb and rehabilitate the Balkan countries than to leave them behind on the platform, as destitute troublemakers.

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Germany and the European Union

The EU stops here

Apr 14th 2005 | BERLIN
From The Economist print edition

Germany's constitutional court puts European integration to the test

Get article background

ALL eyes may be on France's vote on the EU constitution. But some should perhaps be on Germany, whose constitutional court in Karlsruhe this week began hearing arguments that the common EU arrest warrant violates the German constitution, or "Basic Law". If the judges agree, the effect could be huge: Brigitte Zypries, the justice minister, has even said Germany "might have to say goodbye to large parts of the EU."

The judges are unlikely to go so far. But the case shows that Germany is no longer a safe bet for more European integration. Politicians and the media seem surprised at how much sovereignty has shifted to Brussels. Few had noticed that Germany's Basic Law now includes a clause allowing nationals to be extradited to other EU countries. Such discoveries increase Euroscepticism.

This case arose because Mamoun Darkazanli, who has both Syrian and German passports, refused to accept a Hamburg court decision, based on the EU arrest warrant, to extradite him to Spain, where he is charged with helping al-Qaeda. His lawyers filed a complaint with the constitutional court, which suspended the extradition and scheduled a two-day hearing—showing that it considers the case important. The EU arrest warrant may help to fight terrorism and other crimes, but it raises big questions. What remains of a state if it can no longer protect its citizens from foreign powers? Might people be handed over for something that is not a criminal offence at home, such as abortion, legal in Germany but not in Ireland?

At first the government feared that the court might declare the common arrest warrant unconstitutional, which would have put German above European law (a fear underlying Ms Zypries's remarks). But the agenda for this week's hearing suggests that the judges will test only the law implementing the warrant, which goes beyond EU requirements by allowing extradition for crimes committed before it went into effect. Mr Darkazanli is wanted for helping al-Qaeda's attacks on September 11th 2001.

Yet the court also left no doubt that it wants to opine on more fundamental questions. Much of the hearing concerned issues such as the "gradual dissolution of the state through the transfer of core competences". The court appears to want to set limits on European integration, clarifying previous decisions when it has ruled that parliament must retain substantial powers, and that the Basic Law must remain in force.

Constitutional experts such as Ingolf Pernice of Berlin's Humboldt University wonder how far the court will go. Will it say that the transfer of sovereignty must go no further? Might it even open up the possibility for a complaint against the EU constitution? It would be ironic if, after hard-fought referendums in France and Britain, the constitution fell down in the keenest supporter of integration.

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France's EU referendum

The noes go marching on

Apr 14th 2005 | PARIS
From The Economist print edition

Six weeks left, and a mountain for the yes campaign to climb

Get article background

DISBELIEF, denial, panic. Such has been the sequence of official reactions as, one by one, over a dozen opinion polls have suggested that the French will reject the draft European Union constitution in their referendum on May 29th. The polls give the noes an average of 53%.

Officially, the government still expects approval. “I believe that the French will vote yes,” insists Michel Barnier, the foreign minister. Privately, officials are deeply worried. Ministers have been told to get out more. Sympathetic foreigners have been roped in. Joschka Fischer, Germany's foreign minister, turned up this week to say that a no would be “the end of the European Union”. And President Jacques Chirac has joined in, planning a televised chat on April 14th with a carefully chosen group of young people.

Can the yes campaigners turn opinion round? There are three tactical issues. First, how much to use Mr Chirac? Presidential authority can help: François Mitterrand's televised debate just ahead of the 1992 vote on the Maastricht treaty—a real debate, with Philippe Séguin, a no campaigner—helped to secure a narrow yes. Mr Chirac is good at sweeping appeals to history. Yet he could also provoke a protest vote. Confidence in him has slid from 41% in January to 36% in April, according to TNS-Sofres, a pollster. Many left-leaning voters are reluctant to back the president again—as they had to in May 2002, when the far-right Jean-Marie Le Pen faced Mr Chirac in the presidential run-off.

The second question is how far to dramatise the vote. So far, the left—officially in favour, but bitterly divided—has been keener on this than the right. Valéry Giscard d'Estaing, a former president who chaired the convention that drafted the constitution, talks of an “open crisis” if the French say no. But the government is more guarded. Mr Barnier talks only of Europe “stalling”; Nicolas Sarkozy, head of the ruling UMP party, says it would “not be a catastrophe”. Perhaps it is simply too soon to inject a sense of urgency. But perhaps, too, in contrast to the Maastricht vote, which led to the euro, it is hard to say what is at stake in the EU constitution.

The third problem is how to take on the fragmented no campaign. Given that leaders of both mainstream left and right advocate a yes, the potency of the no side seems surprising. Its force comes from its combination of disgruntled political fringes—assorted unionists, revolutionary communists and Trotskyists, plus right-wing nationalists behind Philippe de Villiers and Mr Le Pen—with rejectionists from the Socialist Party, led by Laurent Fabius, the party's deputy leader.

For François Hollande, the Socialist leader, the difficulty is especially acute. If he lambasts left-leaning no supporters, he will alienate half his potential support should he run for president in 2007. Yet the temptation is strong. As the heat has risen, so have tempers. “If Le Pen isn't making himself heard during this campaign,” declared Mr Hollande, to the fury of his rejectionist colleagues, “it's because others are doing the job in his place.”

Underlying the campaign are the usual political rivalries, and not just on the left. On a recent TV show, Mr Sarkozy, who is Mr Chirac's chief rival on the right, seemed concerned to promote himself more than the constitution. It took him over 100 minutes to mention Europe—but a lot less to suggest that a rival UMP candidate could challenge the incumbent in 2007.

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Central Europe

From Visegrad to Mitteleuropa

Apr 14th 2005 | BRATISLAVA, BUDAPEST AND PRAGUE
From The Economist print edition

Shifting alliances among new members of the European Union

IMPROVE your neighbourhood, and everybody wants to move in. Central Europe has been gentrifying so gracefully since 1989 that every country east of Strasbourg seems to claim ties there now. Austrians are rediscovering Habsburg friendships. Slovenia has turned its back on the Balkans. Ukrainians are saying that eastern Europe starts, if not east of Ukraine, then at least east of Lvov.

For long-standing locals, though, gentrification can strain the old social fabric. Central Europe used to mean the Visegrad group, which started life in 1991 as a declaration of co-operation between Poland, Czechoslovakia and Hungary. It grew from three to four with the division of Czechoslovakia in two in 1993, and then became a mutual assistance group to push its members into NATO and the European Union.

Since those aims were achieved a year ago, Visegrad has been falling, if not quite apart, then at least into insignificance. As outsiders, the four countries had to work together to get into the two clubs. Now, as insiders, they have wider choices of allies and policies. Hungary has collided publicly with its partners by trying to bring Austria and Slovenia, neighbours and once parts of the Habsburgs' *Mitteleuropa*, into the Visegrad group. “We think four is a good number,” retorts Slovakia's foreign minister, Eduard Kukan.

Poland's aspirations to regional leadership also cause tensions. Poland has more people and a bigger economy than the other Visegrad three put together. It led the EU in supporting Ukraine's “Orange revolution”. Yet neither the Czechs nor, especially, the Hungarians see themselves as followers. Hungary joined Austria in lobbying for the EU to start entry talks with Croatia last month. Although it failed, Hungary acquired the taste for more active diplomacy. The Czechs are proud of steering EU policy on Cuba earlier in the year.

It is not just a matter of diplomacy. A fault line runs through the economic policies of the four countries. Hungary and the Czech Republic regard themselves, over-optimistically, as relatively rich countries able to support a costly European social model. Slovakia and Poland see themselves, more realistically, as relatively poor countries with much catching up to do. A telling sign that Visegrad has had its day is the absence of any desire among the four countries to join the euro in tandem.

One thing all agree upon is that they should get plenty of money from the EU budget for 2007-13, under discussion in Brussels. All would like transfers at the maximum of 4% of GDP. All want their farmers to get the same subsidies as those in old member states. But even here, interests diverge. The dash by Poland, which has lots of farmers, to cut a separate pre-entry deal on farm subsidies in 2002 rankles.

Visegrad's decline may go unlamented. But there are issues on which the EU's new members need to hang together. They include freedom to set low flat taxes (see article); fighting for the free movement of labour; and joining the Schengen passport-free zone in 2007. Central Europe may be a nice neighbourhood, but at times it needs to be a tough neighbourhood too.

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Swedish politics

A spoil-the-men's party

Apr 14th 2005 | STOCKHOLM
From The Economist print edition

A new women's party threatens the ruling Social Democrats

AFP

Schyman tries again

MOST people think of Sweden as a bastion of equality, where women glide to the top and men readily push the pram. Many Swedish women think otherwise—and their frustration may reshape politics. A new feminist party is to contest next year's elections; if the polls are right, it could win several seats. That worries the ruling Social Democrats (SDP), who lag behind the opposition.

How could Swedish women need their own party? Some 45% of MPs are female (only Rwanda's parliament beats this), and for over a decade half of government ministers have been women. Female participation in the workforce is among the highest in the world. Men can take up to ten months off work on generous benefits to look after small children. Almost all political parties tout their feminist credentials.

Yet women have not closed the gaps in wages, pensions and access to health care. Men can take time off with kids, but few do. Hence the Feminist Initiative, a group of politicians and intellectuals behind the new party. It will focus on issues such as the wage gap and reforms of the rape laws. Sweden will not be the first country with a women's party: a variant was represented in Iceland's parliament from 1983 to 1999.

The driving force behind the party is Gudrun Schyman, former leader of the Left Party, who once accused Swedish men of being no better than the Taliban. In the 1990s she transformed the former communists into Sweden's third-largest party. But Ms Schyman was ousted in 2003 after a battle with alcoholism and a tax scandal. Her new party will hurt the SDP's two small partners: the Left Party, which has struggled since she quit, and the Greens. But the SDP, which has ruled Sweden for all but nine of the past 73 years, could lose votes too.

A panicky Marita Ulvskog, the SDP chairman, says the women's party could pave the way for a non-socialist government. There is talk of a new “women's network” and of more money to local councils to improve women's pay. It may be too little, too late to save the SDP.

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Charlemagne

Trading blows

Apr 14th 2005
From The Economist print edition

How Peter Mandelson, the EU trade commissioner, ran into a spot of bother

IT FEELS all wrong. A British election campaign is on and Tony Blair is battling for a third election win. Yet on the eve of the launch of the Labour manifesto, Peter Mandelson—for many years Mr Blair's most trusted adviser—was stuck in Strasbourg, attending routine meetings at the European Parliament.

It gets worse. Although Mr Mandelson's new job as the European Union's trade commissioner has taken him out of British politics, it also offers the compensating advantage of a chance to rebuild his battered reputation. After two forced resignations from the British cabinet, a stint in Brussels may have seemed a good idea. But only six months into his new job, Mr Mandelson is in danger of having a new and damaging placard hung around his neck: “the man who wrecked transatlantic trade relations”.

At issue is an increasingly acrimonious dispute between the EU and the United States over subsidies to Airbus and Boeing, which has degenerated into a bitter personal quarrel between Mr Mandelson and Bob Zoellick, America's outgoing trade representative and incoming deputy secretary of state. Last October, before Mr Mandelson took up his job, the Americans filed a suit at the World Trade Organisation (WTO) against “launch aid”, the soft loans that European governments give to Airbus. One of Mr Mandelson's first acts as trade commissioner was to persuade Mr Zoellick to put the lawsuit on hold, and seek a negotiated settlement. This week, the three-month deadline the two men had set ran out, amid a slew of angry words—and no deal.

As far as the Americans are concerned, Mr Mandelson lured them into a negotiation against their better judgment and changed the terms of the debate to include discussion of alleged subsidies to Boeing—only to prove quite unable to deliver the cuts in aid to Airbus that he had promised. Mr Zoellick, who has a short fuse at the best of times, is fuming. He has publicly accused Mr Mandelson of using political “spin” and compared him unfavourably with his (French) predecessor, Pascal Lamy. For his part, Mr Mandelson sees “Bob” as intellectually arrogant and overly academic. “It's like trying to negotiate with a brick wall,” complains one member of the EU's trade team.

There is little doubt that a personality clash between Mr Zoellick and Mr Mandelson has contributed to a marked worsening in the transatlantic trade relationship—just as did the personal animosity between a previous (British) EU trade commissioner, Sir Leon Brittan, and a previous American trade representative, Charlene Barshefsky. On paper, Mr Zoellick and Mr Lamy (an American Republican and a French Socialist) might have been expected to clash even more overtly. But in fact, the two men were similar: both swotty nerds, whose idea of relaxation was to train for running the marathon. Mr Mandelson, by contrast, is shrewd but not intellectual, a deal-maker, not a technocrat. His team hopes that he will get on better with Mr Zoellick's successor, Rob Portman, who as a Republican congressman is a fellow politician. He should be in place next month. But there is also an appreciation in Brussels that things have gone so far in the Airbus-Boeing dispute that it will take more than a friendlier face in Washington to defuse the row.

Prince of darkness

This deterioration intrade relations is a blow to Mr Mandelson, who had been settling into Brussels well. In a European Commission short of obvious stars, he has been regarded as one of the more assured performers. The Mandelson style has always been to position himself as the trusted adviser of the leader. Having done it with Mr Blair, he seems to have replicated this relationship with José Manuel Barroso, the president of the European Commission. Mr Barroso has appointed Mr Mandelson to a number of key

advisory groups: the commission president's speeches are larded with Mandelsonian phrases. But to maintain his position as a trusted adviser, the spinmaster needs also to preserve his reputation for competence. A damaging dispute with the United States on his watch is distinctly unwelcome. That a row with the Bush administration actually plays well in some quarters in Brussels is scant compensation.

However entertaining it looks, the Mandelson-Zoellick dispute is not ultimately the nub of the problem. Bigger political and economic forces are at work. It is surely no accident that the Bush administration's decision to get tough over Airbus was made during a presidential election campaign. Boeing's complaints continue to attract a ready audience in Washington. On April 11th, when the original deadline for a negotiated agreement ran out, the Senate passed a resolution by 96-0, urging the Bush administration to return swiftly to the WTO, “if there is no immediate agreement to eliminate launch aid.” The Senate resolution, which talks of the “loss of over 60,000 high-paying US aerospace jobs” and “$30 billion in market-distorting subsidies” to Airbus, captures the current American mood.

Political considerations also play a role in Europe, where Airbus symbolises lots of things that EU leaders would love to believe in: the benefits of European integration, European technological prowess, the possibility of a successful industrial policy, and the preservation of all those lovely high-paying manufacturing jobs. Mr Mandelson may have succeeded in building a good relationship with the president of the commission, but he must in the end follow the wishes of Europe's national governments. And even Mr Blair, whose non-interventionist, pro-American creed was honed by Mr Mandelson, is an unabashed Airbus fan. On a campaign visit this week to a British factory that makes wings for Airbus, the prime minister hinted that he would look favourably on an application for “launch aid” for its new A350 aircraft. The Americans have promised that any such aid will automatically trigger further WTO action. For Mr Mandelson, it seems, there may be no getting away from the British election after all.

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The election

The battleground

Apr 14th 2005 | HOVE, EAST SUSSEX
From The Economist print edition

The marginal seats—the ones that matter—are in small towns, the suburbs and the seaside. That's shaping the campaign

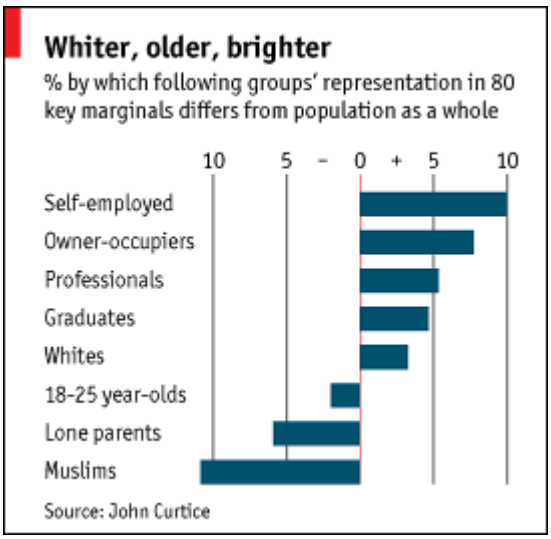
Get article background

HOVE's seafront looks out across the Channel like a stage set built to impress northern France. It was once rather more genteel than neighbouring Brighton, where Graham Greene's nastiest villain made such effective use of a cut-throat razor. “We used to say that all you had to do to get elected round here was to buy a poodle and wear a blue rosette,” says a member of a Labour team out campaigning on a paved shopping street.

Hove now feels more like a poor neighbour to louche Brighton, with its bars and clubs. But it is hardly natural Labour territory either. Celia Barlow, the candidate selected just two months ago from an all-women shortlist to replace the outgoing Labour MP, is working hard to defend a majority of 3,171.

Her Conservative opponent, Nicholas Boles, has had longer to settle in. Mr Boles is one of the strongest new candidates that the Tories have in this election. His website says that he “somehow scraped a first” from Oxford and then went on to the Kennedy School of Government at Harvard, though wandering around town with him it becomes clear that it was not entirely a fluke. He runs a useful think-tank, is 6'6” tall, photogenic and openly gay. When his canvassers give out leaflets with a picture of Mr Boles on one side and campaign pledges on the other, one woman says, “Oh he's nice, isn't he?”

According to Labour Party folklore, when Hove fell to Labour in 1997, Tony Blair woke Cherie to tell her the election would be a landslide. Whether or not the story is true, Hove is still one of about 20 seats that the Tories feel they ought never to have lost in that election, but failed to win back last time. They include constituencies such as Braintree in Essex and Wimbledon in south London. In many of the targets, Labour's share of the vote actually increased in 2001 despite the fall in its vote nationally compared with 1997, making a landslide defeat for the Tories even worse. In order to deny Labour a majority this time, the Tories need to win back those 20 seats, plus a further 60.

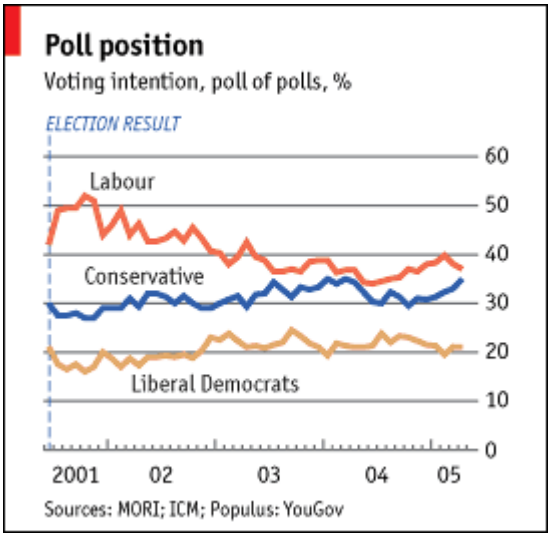


Those crucial seats fit into three main categories: the seaside, the small towns and the suburbs. These

places share some characteristics, which are shaping how the election campaign is being fought.

The 80 battleground seats are slightly whiter than the average for the rest of the country (see chart). This partly explains why the Tories have made immigration so central to their campaign: concern about immigration is often higher in areas where there aren't many immigrants. And few of the target seats could properly be described as urban. Apart from a couple of affluent London seats, the Conservatives are not seriously competing in the big cities to which new immigrants tend to head, and so they do not need to worry too much about offending them.

They are a little older too. All the parties are offering goodies for pensioners at this election, partly because they are more likely to vote than the rest of the population. But the makeup of the battleground seats also means this is a good idea. This is particularly true of the 15 seaside seats on the list, where cheap properties in holiday resorts deserted by visitors proved to be attractive places for retirement. Some of Britain's seaside towns are now getting younger, but this is a slow process and there are still plenty of grey votes to fight for.



Alongside the messages from the national campaign, local issues feature prominently. In part this is because many people are hard-pressed to distinguish between the main parties' policies. But voters also like their politics grounded in their own experience. The Liberal Democrats were the first party to run general-election campaigns with a strong local twist, but now the other parties are doing it too. In some target seats they produce weekly newsletters which concentrate on what is going on in just a few streets in a particular constituency. Ms Barlow estimates that two-thirds of the issues that people raise with her in Hove are local and only one-third national.

Technology has helped the parties to use their resources more efficiently in local campaigns. By cross-referencing data on things like age, health, occupation, personal finances and property with voting intention, the parties are able to make informed guesses about where their support is and where they might pick up more votes. Much of this data comes from Experian, a company which sorts each postcode (typically 15 people) into one of 61 consumer categories.

Experian's map of Gillingham, a small town in Kent on the Conservative hit list, for example, turns up a couple of streets in the middle of strong Labour territory where voters who could be susceptible to Tory messages lurk. Persuading them—and their counterparts in the seaside, small-town and suburban seats—to vote Tory looks like the difference between a third humiliation for the Conservatives and cutting Labour's lead enough to make the next parliament a rowdier place.

A comprehensive election briefing is available to subscribers at www.economist.com/election

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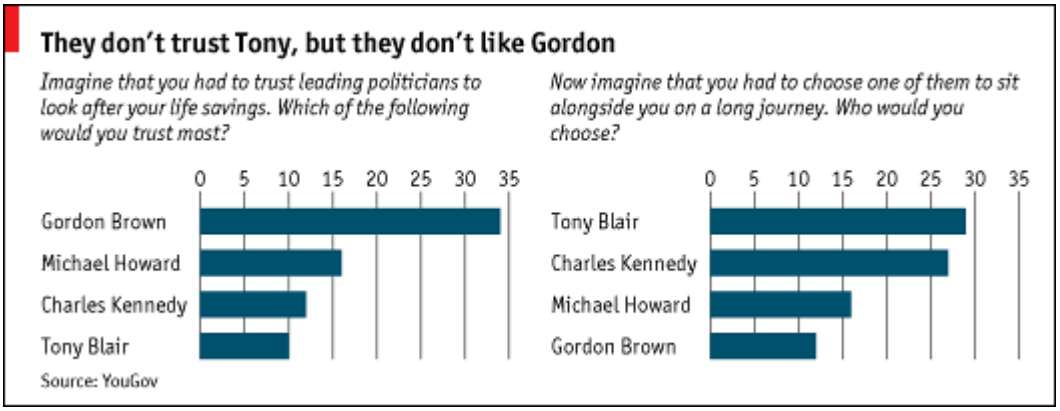
Campaign diary

On the trail

Apr 14th 2005
From The Economist print edition


They don't trust Tony, but they don't like Gordon
Imagine that you had to trust leading politicians to look after your life savings. Which of the following would you trust most?
0 5 10 15 20 25 30 35
Gordon Brown
Michael Howard
Charles Kennedy
Tony Blair
Source: YouGov
Now imagine that you had to choose one of them to sit alongside you on a long journey. Who would you choose?
0 5 10 15 20 25 30 35
Tony Blair
Charles Kennedy
Michael Howard
Gordon Brown

Enough already
Maurice Card, a 60-year-old Wiltshire man, has reported the leader of the Conservative Party as a nuisance caller after a pre-recorded election message spoiled his enjoyment of a football game. "It certainly didn't endear Michael Howard to me but if it had been Tony Blair or the ginger-haired Scot I would have felt the same," said Mr Card.

Are you thinking what the Tories are thinking?
"Blair is to frankness what Herod was to baby-sitting." Former prime minister John Major on his successor.

The needle and the damage done
Voting intentions of drug users: Labour 9%, Conservative 3%, Lib Dem 22%, Green 32%. Labour's share of the stoner vote is down 19 points since 1997, says the Independent Drug Monitoring Unit.

Cut!
Labour's first election broadcast, directed by Anthony Minghella, featured a rambling conversation between Tony Blair and the chancellor, Gordon Brown. Mr Blair's tie and Mr Brown's jacket came on and off between frames, rather spoiling the illusion that the viewer was being let in on an unscripted policy chat.

Rex

Signs held by Ed Matts, Tory candidate in Dorset South, and Anne Widdecombe, a former home office minister, were mysteriously altered for Mr Matts's campaign leaflets. In the original, Mr Matts was protesting at plans to deport asylum-

seekers; in the doctored version, at the government's dangerously liberal immigration policy

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MG Rover

Last rights

Apr 14th 2005
From The Economist print edition

The Chinese have already got what they wanted

AP

The youth vote

WIVES and children of workers from the MG Rover Longbridge factory in Birmingham turned up in Downing Street on April 13th hoping to persuade the government to save the company. In particular, they want it to keep paying the workers' wages while the company's bankruptcy administrators try to revive a deal with Shanghai Automotive Industry Corporation (SAIC). But the £6.5m ($12.3m) in ad hoc state aid the government has already promised the company to keep paying wages and thus try to stave off 6,000 job losses just before an election may contravene European law. The European Commission says it has not made its mind up about the matter yet.

Nor is there much prospect of the Chinese renewing their interest. SAIC walked away from a proposed joint-venture with Rover last month because it feared that it would be landed with the liabilities of a bankrupt partner as Rover ran out of cash. Not even the offer of a government bridging loan of £100m was enough to keep them talking. Now SAIC says it rules out becoming involved with MG Rover again while it is in administration or buying it as a going concern. “But the door is ajar,” says a spokesman, tantalisingly.

SAIC makes cars in China under licence in joint-ventures with GM and Volkswagen. It is desperate to get its hands on carmaking technology of its own, and even a battered brand like Rover would help it become a proper car company not just in China but internationally. But it looks as though it has gone quite a long way already to achieving these aims.

Last autumn, the Chinese paid £67m to acquire various intellectual property rights (IP) from Rover. There is still some confusion over the precise status of various deals, but car-industry sources have told *The Economist* that SAIC has acquired the property rights to the Rover 25 and the Rover 75. “They've got every last drawing they need to build them,” says someone close to the negotiations. In addition, SAIC has acquired and sold on to another Chinese carmaker, Nanjing, the similar rights to make the Rover 45, including the design details of a new model under development. With the IP went the right to use the Rover brand in China, but there is some suggestion now that SAIC might have to go back to BMW, the residual owner, and buy it outright.

In addition, SAIC has acquired not just the technology but also the production equipment for making Rover's K series petrol engines and for a diesel version which would be handy if SAIC ever dreamed of selling Chinese Rovers back in Europe. Whatever ambitions SAIC might still harbour, they are very unlikely to include the Longbridge factory itself, since it is unproductive by international standards and cars can be made much more cheaply in China. That leaves the most valuable part of MG Rover as the right to use the MG brands for sports cars. But even that could be compromised by the fact that SAIC seems to have acquired the right to use it on saloon cars in China.

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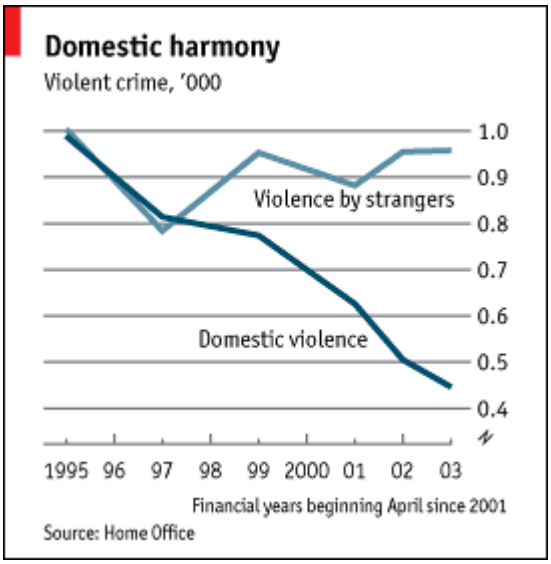
Domestic violence

Have you stopped beating your wife?

Apr 14th 2005
From The Economist print edition

The unheralded decline of violence against women



"RELAX, enjoy your drink. No one in this pub can tell you're a wife beater." The accusatory message, printed on beer mats and distributed last month by London's Metropolitan Police, suggests that domestic violence is so widespread that a drinker is likely to be perpetrating it. But fewer men will have choked on their beer than might have been the case ten years ago. According to the British Crime Survey, domestic violence has declined much more rapidly than violence against strangers, and is now less than half as common as it was in the mid-1990s (see chart).

This achievement has not been touted by the police, who are sensitive to past charges of underplaying violence in the home. Nor will you hear about it from women's organisations or politicians. The government has asserted that domestic violence is far too common, and is currently introducing tough new laws to tackle it. From July, the courts will be able to impose restraining orders on suspected abusers even when they are acquitted of assaults.

Closer attention from the forces of law and order is one likely reason for the decline in domestic violence. Over the past few years, coppers have abandoned what Simon Letchford, of the Metropolitan police, calls the "tea and sympathy approach" to abuse. These days, says Mr Letchford, the police treat violent partners in much the same way as the American authorities treated Al Capone: "If we can't get him for beating up his wife, what else can we get him for?" Prosecutors can often take their pick, since men who harm their partners commonly mistreat others. A survey of victims in 2001 found that 37% of those who suffered serious injury knew their persecutor to have a criminal record.

But the most likely explanation for the decline in domestic violence has to do with changes in British society. During the past decade, women have become more economically independent and have started to behave in such a way that their chances of falling victim to a violent partner are greatly reduced.

The most obvious change is that there are fewer wives to beat. The number of married couples in England and Wales fell by 900,000 between 1991 and 2001, according to the census. Cohabiting couples increased in number by the same amount, from 1.1m to 2m. Couples are delaying marriage—the

average first-time bride is two and a half years older than a decade ago—and living together for longer beforehand. That matters because, in about half of all cases, domestic violence takes longer than a year to emerge. When it does, women find it easier to dissolve a cohabiting relationship than to divorce.

Although open-minded police officers insist that every woman is a potential victim of violence, some are at greater risk than others. Home Office statistics show that women under 30 are most in danger—largely, it seems, because young men are more violent than middle-aged men. The poor also face higher risks, as do mothers of young children. Emma Williamson of Women's Aid says that abuse often begins or worsens during pregnancy, when a man's sense of control is jolted.

Youth and pregnancy used to coincide. But the average age at maternity has risen along with the average age of marriage. In the ten years prior to 2003, the number of births to women under 30 fell by 27%. Many women are embarking on motherhood at a less dangerous time.

The decline of domestic violence is not evident to those who run shelters for battered women, who report full beds and continually ringing telephones. But it may be that demand for such services has always outstripped supply, especially in London. And Jill Radford, who teaches at the University of Teesside, says that the population of shelters seems to be ageing slightly. The young, it seems, are better at taking care of themselves.

The waning of marriage and stable relationships among the young has been blamed for a variety of social ills, from single motherhood to the irresponsible behaviour of young men. But non-commitment does have its advantages.

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Equitable Life

The blame game

Apr 14th 2005
From The Economist print edition

Equitable Life sues its auditors and ex-directors

FOUR and a half years after the near-collapse of Equitable Life, the world's oldest life insurance firm, the aftershocks are still being felt. Last week they reached the courts, as the firm sued Ernst & Young, its former auditors, for £2 billion, and 15 former executive and non-executive directors for £1.7 billion.

Equitable's troubles stem from policies it sold in the 1970s and 1980s, which guaranteed the rate at which customers could turn their stake in the company's "with-profit" fund into annuities upon retirement. That was no problem 30 years ago—interest rates were high, so the guaranteed rates were lower than market rates. But as rates fell in the 1990s, those promises began to look expensive. The firm began cutting the bonuses it paid to policy-holders in an attempt to keep its costs down. In 2000 the House of Lords ruled that illegal, leaving Equitable with a £1.5 billion bill. It froze the value of existing policies and looked for a buyer; when none could be found it closed its doors to new business.

The insurer accuses Ernst & Young of failing to inform it adequately about the size of its liabilities and the risk posed by the trial, and the directors of acting negligently by failing to get legal advice. Had the board understood the true scale of the problem during the late 1990s, says Equitable, it would have cut payments to its policy-holders and tried to sell the company.

If Equitable wins a big settlement, the consequences could be far-reaching. The role of the non-executive director has been refined repeatedly over the past decade, says Chris Higson of London Business School. But the question of their liability has never been tested in court. That's something, he says, that the Equitable Life case should clarify.

There could be implications for the audit industry, too. It is already under the regulatory microscope following the collapse of Arthur Andersen in 2002. The government has suggested allowing auditors to write limited-liability clauses into their contracts, and a hefty damages award against Ernst & Young would provide further ammunition for both sides of that debate. It has even been suggested that the case could bankrupt Ernst & Young, but the auditor dismisses such talk. It says it is confident that it will win the case and accuses Equitable of "pouring its policyholders' money down the drain".

That view is shared by some of Equitable's own customers, who have questioned whether legal fisticuffs (expected to cost around £85m) are the best use of the firm's resources, given that thousands of policy-holders are still receiving reduced payments. But the company insists that it can afford to lose the case, and points out that any winnings would eventually be returned to policy-holders in the form of higher payments.

The trial will be long (it is expected to take nine months), complicated (Ernst & Young's opening submission runs to 500 pages, Equitable Life's to 250) and expensive. And the Parliamentary Ombudsman, the Joint Disciplinary Scheme (a disciplinary body for accountants) and the Actuarial Profession, a trade body, are all conducting separate investigations into the case. Expect the rumblings to continue for a while yet.

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Northern Ireland

Bang-bang, bling-bling

Apr 14th 2005
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How paramilitaries in Northern Ireland spend their money

“DORIS DAY” is the nickname of Jim Gray, one of Northern Ireland's top loyalist (Protestant) paramilitaries, a “brigadier” in the Ulster Defence Association (UDA). The nickname was prompted by his bleached blond hair, year-round tan, fondness for gold jewellery and clothes in pastel shades of pink and blue.

Last month, the UDA ousted Mr Gray from its leadership, claiming that his behaviour (his dress sense was not mentioned) hurt their image. At first sight, that seems odd: a gang whose political activity has long been eclipsed by its main lines of business—selling drugs and running prostitution rackets—might seem to have little reputation to damage.

But such concern for appearances is a sign of changing times in Northern Ireland. Government attacks on paramilitaries' criminally acquired wealth have begun to bite. A week after he was ditched from the UDA's leadership, Mr Gray was arrested on his way out of the country with a banker's draft for €10,000. Mr Gray and a prominent Belfast estate agent soon found themselves in court charged with money-laundering offences. Other investigations have seen well-appointed homes, speedboats and a flat on the Côte d'Azur seized by the authorities.

The misuse of state cash that helped festoon some of the provinces' thickest necks and wrists with heavy gold necklaces and bracelets has also been checked. Genuine community activists (ie, those not fronting for paramilitary gangs) have been telling the government for years that money pumped into regeneration schemes invariably ends up being trousered by gangsters.

The Northern Ireland Office finally seems to have spotted its mistake. Since last December's bank robbery, which netted the IRA £26m, criminal justice authorities on both sides of the border have been putting paramilitaries' business activities under intense scrutiny. The IRA's money-laundering operations in Ireland are now the subject of a prolonged investigation and in the past year the British Treasury has seized more than £6m in assets, mainly from loyalist paramilitaries, in Northern Ireland.

Mr Gray is just the latest loyalist figure to see his fortunes turn. His one-time ally, the former UDA leader Johnny Adair, who rejoiced in the nickname “Mad Dog” because of his violent short temper, is now living in Bolton in north-west England with his family after a coup in the organisation. In his home district of the Shankill, he would occasionally be seen with heavily tattooed followers freshening up the garish red, white and blue murals. But the Assets Recovery Agency, a government outfit that hunts down criminal cash, has belatedly begun to make inroads into the Adair enterprises, and with their leaders away, the gangs now seem to be more open to prosecution.

Mr Adair, however, says he will be back. To the relief of the police in Bolton, who last year convicted his son of drug offences, he recently promised to go home to Belfast when he thinks himself safe from enemies and former friends. But his return is not necessarily imminent. “Rome,” he says, “was not built in a week.”

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Spending plans

Much ado about nothing

Apr 14th 2005
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The Conservatives' spending plans are strikingly similar to Labour's

A BUNFIGHT over tax-and-spend policies is a traditional feature of the modern election. So it was no great surprise when Labour spent much of this week seeking to demolish Tory spending plans.

Despite Labour's bombardment, the Conservative plans remained essentially intact. One reason is that Labour has changed tack. Its first line of assault had been to suggest that the Conservatives would slash spending by £35 billion.

This sounds a big number but Labour's charge backfired when it emerged that this "cut" represented the gap between the two parties' plans for 2011-12, resulting from somewhat slower growth planned by the Tories than by Labour. The claim seemed particularly pointless since 2011-12 is a year beyond the lifespan of the next parliament, which must end by mid-2010.

Labour's new tactic this week was to suggest that Conservative commitments would cost £15 billion more than the Tories have provided for in 2007-08. The Conservatives retorted that Labour's costings were grossly inflated and said that the commitments in question have been budgeted for. Whatever seeds of doubt Labour may have sown about the Conservative plans, its change of tack was probably counter-productive. It is difficult to say in the same breath that your opponents intend to spend too little and too much.

However, the main reason why Labour has found it hard to mount a convincing assault is that the Tory plans to restrain public-spending growth are so modest. The Conservatives say that in two years' time, they will spend £12 billion less than Labour. In 2007-08, Labour intends to spend £580 billion. This means that the Conservatives will spend £568 billion, up from £484 billion in 2004-05. The gap between the two parties will be worth a little less than 1% of GDP in 2007-08.

The similarity between the two parties' plans extends beyond the spending totals. Both Labour and the Conservatives claim to be able to find big savings from making the public sector more efficient. Labour says that it will be saving £21.5 billion a year by 2007-08, which it will recycle into public spending. The Conservatives claim an annual efficiency saving of £26 billion by 2007-08, of which £23 billion will be recycled into public spending. Both parties' claims are dubious and will be difficult to substantiate one way or another.

The war of figures will leave most voters bemused, deepening the prevailing mood of disenchantment with politics. Colin Talbot, professor of public policy at Nottingham University, says, "there is a huge amount of smoke and mirrors as politicians try to spin huge ideological differences out of relatively minor ones."

Whoever wins, taxes are going up. The IMF gave warning on April 13th that it would be necessary to "accelerate the pace of fiscal consolidation". The Tories have turned this IMF-ese into "a tax bombshell" dropped on Labour. But since the Conservatives would have to contend with the same fiscal outlook, their delight was misplaced. Taxpayers can expect a battering whatever happens on May 5th.

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Political betting

Punters v pollsters

Apr 14th 2005
From The Economist print edition

Are betting markets a better guide to election results than opinion polls?

“I CAN predict the likely outcome of the election right now, because things rarely change in a British election campaign." Leighton Vaughan Williams, director of the Betting Research Unit at Nottingham Trent University's business school, has been studying the form for the general election on May 5th and reckons he knows what will happen.

According to Mr Vaughan Williams, betting markets predicted the outcome of last year's American presidential election more accurately than conventional models that incorporate things like opinion polls and unemployment figures. The polls, which vacillated between Bush and Kerry, tended to be more volatile than the markets, which were solidly for Bush. Moreover, Mr Vaughan Williams says, punters on betting exchange sites called difficult states such as Florida right. They also got the Australian election right while the polls pointed in opposite directions.

The last couple of British elections have been rather predictable, so bets on which party would win are not much of a guide to the wisdom of crowds. A better indicator is to look at bets on how many seats each party would get. In 2001, several opinion polls during the campaign reported a Labour lead of over 20 points. In the end, Labour won by just nine points. But punters betting with Sporting Index, a spread betting firm, seem to have ignored the polls and guessed the number of seats each party would get fairly accurately. A more surprising success for spread-betters was the election in 1992. While polls on the eve of the election wrongly pointed to a Labour win, the money was on the Tories winning the most seats.

Why punters seem to be so good at guessing is a puzzle. One possible explanation is that risking money tends to concentrate the mind, whereas giving an opinion to a pollster costs nothing. But studies of play-money markets in America, where people trade for fun rather than riches, have found similar success in predicting outcomes.

A more convincing answer is that while pollsters are taking a freeze-frame of opinion at a given moment, punters are betting on a future outcome. And many of them are well informed. Warren Lush, who spends much of his time during election campaigns wandering around outside the Houses of Parliament with a sandwich board, marking up odds for Ladbrokes, a betting firm, says he is always turning down requests to open a book on cabinet reshuffles. “It's all insider knowledge,” he explains. At the last election, Tim Yeo, a Conservative shadow minister, placed a bet on the size of Labour's majority.

Since then, betting markets may have become more efficient. Internet sites that allow punters to compare odds at different bookmakers make it easier to shop around. Websites like Betfair.com, which match punters who want to bet at certain odds with punters prepared to take the bet, mean odds are now driven more by what the punters think will happen than by the bookies. And the tax on winnings has been scrapped, bringing down the cost of each transaction.

Pollsters have now adjusted their models to try to banish their habitual overstating of Labour's lead, so the polls and the punters may converge by the end of the election campaign. If not, some pollsters might want to hedge their bets, as Robert Waller, co-author of the *Almanac of British Politics*, did in 1992. Mr Waller was working as a pollster then, and his polling told him Labour would win. But he put his money on the Conservatives. As for Mr Vaughan Williams, he predicts that Labour's majority will be reduced to 60.

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Bagehot

Reading between the lines

Apr 14th 2005
From The Economist print edition

The parties' manifestos tell us more about them than they realise

Get article background

WHO cares about manifestos? Few voters ever read them, and governments are shaped more by events than by policies. Thatcherism was defined as much by the Falklands war and the miners' strike as it was by privatisation and the sale of council houses. There was only a passing reference in Labour's 2001 manifesto to international terrorism and nothing about the urgent need to topple Saddam Hussein. Yet Tony Blair's second term—and probably his premiership—will be remembered more for his foreign policy than for the important but boring business of modernising Britain's welfare state.

But manifestos nevertheless matter. Not only do they show how the political parties want to be seen by the voters, but they also say something important about the state of those parties.

The Tory and Labour manifestos published this week are oddly like the parties' respective manifestos in 1987 when Margaret Thatcher, like Mr Blair today, was seeking a third term. After the disastrously detailed 1983 Labour manifesto, described by an insider as “the longest suicide note in history”, the 1987 version was short—Mrs Thatcher scoffed that it was only 17 pages with lots of white space—bland and slick. Its brevity implied that Labour was still a long way from being ready to form a government; its pragmatic tone and reassuringly glossy presentation suggested that the party had decided it was time to re-engage with the real world.

The Tories' 1987 manifesto, by contrast, was a comprehensive programme for governing. It combined the experience the party had gained from eight years in power with undiminished energy, while hinting at a potentially dangerous degree of intellectual self-confidence. With hindsight, it is clear how far Labour was from returning to power and how arrogant the Tories had become, but the 1987 manifestos provided clues for anyone prepared to look for them.

The two major parties' 2005 manifestos are similarly revealing. The Tories' offering is nasty and short, if not actually brutish. Many of its 7,500 words are a carefully calculated appeal to prejudice and fear. Immigration, asylum and crime are tendentiously conflated and all are supposedly out of control. The manifesto misrepresents the position of the Tories' political opponents. One of its central statements, for instance, is: “It's not racist to impose limits on immigration.” Neither Labour nor the Liberal Democrats say it is.

The Tories' technique is to use language that just manages to stay on the right side of respectability, while giving comfort to all those people who preface their bigotry with the words: “I'm no racist, but...” “Are you thinking what we're thinking?” insinuates the Tories' clever slogan, raising the distinct possibility that both you and they are thinking things that should not be spelt out too clearly.

As well as being nasty, the Tory manifesto is also rather brilliant. It clearly and precisely articulates the irritations and grievances not just of traditional Conservative supporters, but also of the politically apathetic who consider themselves let down or neglected by Labour. Between them, they make up the “forgotten majority” that Michael Howard's hopes rest on mobilising. Mr Howard doesn't feel their pain—that's not his style—but he wants them to know he shares their anger about dirty hospitals, unruly schools and wasteful public spending. The harsh simplicity of the manifesto translates neatly into the posters and mail shots that are the backbone of the Tory campaign.

This manifesto is less a blueprint for government than a manual for a guerrilla war. It demonstrates that

the Tories have rediscovered the will and energy to fight a ruthlessly effective campaign, but that they are not yet thinking or behaving like a government-in-waiting.

The ties that bind

By contrast, the Labour Party's manifesto—a 112-page book—is more than just a detailed account of what Labour will do when (the assumption is implicit) it is re-elected. Unlike Mrs Thatcher in 1987, Mr Blair has ruled out “going on and on”. But he is just as certain as she was that eight years' worth of experience has given him a perfect understanding of how to run the country. The vision of a growing and stable economy funding increasing levels of spending on reformed public services is familiar, but Mr Blair's confidence in it has never been greater. The prime minister adopted a semi-valedictory tone at the manifesto's launch on April 13th. What matters most to him, apart from winning the election, is binding his party and his successor to New Labour policies.

Much has been made of Gordon Brown's prominence in the campaign. The way in which the chancellor and the prime minister have been travelling the country together, implausibly presenting themselves as an inseparable couple, has aroused a certain amount of ridicule. It is also seen as evidence that Mr Blair knows he can't win without Mr Brown and that, consequently, the flow of power from the one to the other has accelerated. Sooner rather than later, goes this version of the way things will unfold after the election, Mr Blair will have departed, leaving his successor to unpick the bits of New Labour of which he has always disapproved.

Things may not turn out quite like that. This week Mr Brown embraced a very New Labour manifesto over which he had little input, even talking enthusiastically about choice and competition in public services.

For Mr Blair, the purpose of this manifesto, the details of which he has been overseeing since last year, could not be simpler or more important. It's about his legacy. He wants to be remembered as a prime minister who did more than win three elections in a row and fight an unpopular war.

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Human resources

China's people problem

Apr 14th 2005 | HONG KONG AND SHANGHAI
From The Economist print edition

ImagineChina

Problems recruiting and retaining workers, particularly skilled ones, are raising the cost of doing business in China

Get article background

CAN China—population 1.3 billion—really be running short of people? In many of the most important parts of its booming economy, the answer, increasingly, is yes. Though China has a vast pool of unskilled labour, firms in the south now complain that they cannot recruit enough cheap factory and manual workers. The market is even tighter for skilled labour. As the economy grows and moves into higher value-added work, the challenge of attracting and retaining staff is rising with the skill level, as demand outstrips supply. The result is escalating costs for firms operating in China. “If you think that China is a cheap place for labour, think again,” says Vincent Gauthier of Hewitt Associates, a human-resources consultancy.

The particular shortages mentioned most often are of creativity, of an aptitude for risk-taking and, above all, of an ability to manage—in everything from human resources and accounting to sales, distribution, branding and project-management.

Though developing economies often encounter talent shortages as they start to grow, China's history has left it with some peculiar deficits. Its Confucian heritage, which emphasises rote learning and hierarchy, may partly explain why many graduates, despite good paper qualifications and English language skills, are often cautious about taking the initiative. Some firms complain that China's one-child policy has made it harder for them to find natural team-players. That there are few MBA programmes in China may not help either.

Large parts of China's economy remain in thrall to the state, where loyalty to the Communist party more than business acumen drives career success. Jeff Barnes, “chief learning officer” at General Electric (GE) in China, says that the “issue we have is finding mid-level and top-level leadership. The Chinese talent is first-generation. They don't have role models. Their parents worked for state-owned companies.”

The wrong sort of chairman

Chairman Mao's Cultural Revolution in 1966-76 wiped out a generation of management potential, as millions of Chinese learned that capitalism was evil. After a lifetime under socialism, many lack the mindset to adopt western working practices. In China, says Jack Perkowski, boss of Asimco Technologies, a supplier of vehicle parts, “the talent pool consists either of managers from state firms who are too bureaucratic or entrepreneurs who have come up through the private sector and are unconstrained by capital or the law.”

Foreign firms now invest some $1 billion a week in China. As they expand, they increasingly need workers able to handle the complexities of multi-site operations. Staff shortages threaten these plans. In a recent speech, Arics Poon, managing director of Oracle for South China and Hong Kong, said that “we need a group of strong, professional managers or we may fail to support our growth in China.” Anthony Wu, head of accounting firm Ernst & Young (E&Y) in Hong Kong and China, admits that “we have decided not to tender for some major clients because we feel we don't have the staff to service them.”

Business plans for China rarely reflect the cost and time involved in recruiting and retaining local staff. Firms are finding that they cannot replace expensive expatriate staff with cheaper local hires (“localise” in the jargon) as quickly as they hoped. Many underestimate the cost of local staff. Chinese graduates often have an inflated view of their own worth, complain some foreign managers. Multinationals are also competing for talent with China's domestic companies, which need to improve the quality of their people as their markets open to foreign rivals.

Chinese people returning from overseas (lyrically named *hai-gui* or “sea turtles”) are plugging some of the shortages, particularly at the most senior levels. David Wei, president of B&Q China, Yifei Li, managing director of MTV China, and Zhu Min, head of restructuring at Bank of China, all worked or were at least partly educated outside China. But at a more junior level, returnees can sometimes have problems reintegrating, may lack local market knowledge and are expensive.

Recruitment, retention and localisation of staff is now top of the agenda for firms in China. Paolo Gasparrini, head of China for L'Oréal, a French cosmetics firm, says that “to find good people in China is not easy. Technically and in administration they are very good. But in marketing—a crucial discipline—there are just a few people with short experience and everyone is competing for them. You find yourself micro-managing more than you'd like.” Mr Poon concurs: “If the tasks are across departments, or if it means working in a team or trying to relate to others, they [Chinese staff] still have a long way to go.”

Fierce competition and a limited supply of talent is resulting in high turnover rates. “The biggest issue is retention of people,” says E&Y's Mr Wu. “Retention is much cheaper than recruitment.” One in ten executives changed job in the southern city of Shenzhen last year and one in 12 in Beijing, according to Hewitt. The same research points to a nationwide employee churn rate of 11.3% in 2004, up from 8.3% in 2001. Some smaller firms see turnover as high as 30%, but leading global firms are not immune. L'Oréal, with 3,000 people in China, says that staff turnover in its marketing department is nearly 15%. “A lot of fresh graduates leave. We lose almost all we hire in the first three years,” says Daisy Dai, its human-resources director.

Pay and benefits are soaring. A Chinese middle manager at a foreign company in Beijing or Shanghai can now command total annual cash compensation (salary plus bonus) of $27,000-$32,000, says Hewitt. Senior managers receive between $46,000 and $54,000 and top executives can expect $80,000 to $90,000 or more. While underlying inflation in China is around 2%, average annual salary increases for mid-level and senior managers are now 6-10%. Lai Kam-tong at the Hong Kong Institute of Human Resource Management says that accountants' salaries are rising by 14% a year. Jürgen Viethen, general manager for F&G China Electric, a small Spanish-owned electrical switchgear-maker, is offering key employees raises of up to 50%—and still losing them.

Bonuses, longer-term incentives, free housing and meals, a mobile phone and a set of wheels are becoming standard perks. More than one-third of 1,600 multinational firms surveyed by Hewitt now offer a company car. More holidays, maternity and paternity leave, more frequent job rotation and share options also now feature. Add in the big contributions that employers must make to China's national security fund system and the total cost of an employee can be double his basic pay.

Above all, Chinese employees want good training, as they are acutely aware of the limitations of their educational system and keen to acquire marketable skills. Ping-on Mak, senior human resources manager

for GE Consumer Finance in Asia, says that the attitude of many young Chinese managers is “if I want training, I'll go work for a multinational and then after three years I'll leave.” But GE, with an in-house “university”, and L'Oréal, which provides mentoring, say that training produces employees who tend to stay longer.

Some foreign firms hope to persuade the expatriates they send out to stay longer than first planned—despite their higher cost. Some are relocating operations from the coast to smaller, cheaper cities to tap new markets for talent. Some are even considering outsourcing from China itself, by moving parts of their operations to, say, Vietnam and Cambodia, where the workforce is even cheaper and younger.

None of this has, yet, slowed China's economic growth. Basing production in mainland China remains cost-effective for most foreign firms. But the growing shortage of executive talent may make the growth assumptions written into many business plans over-optimistic. F&G's Mr Viethen's lament that, despite being a business manager, “I spend most of my time on human resources, not sales,” rings true at many foreign firms in China.

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Carrefour, Tesco and Wal-Mart

Growing pains

Apr 14th 2005
From The Economist print edition

Big profits, big ambitions, big challenges

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FT

What the world needs now?

"THIS is still today a local industry," says Sir Terry Leahy (pictured), boss of Tesco. On April 12th, his British supermarket chain said that underlying group pre-tax profit in the year to February 26th rose by 21% to £2 billion ($3.8 billion). With sales up by 12% to £37 billion, Tesco confirmed its place as the world's third-largest retailer, after America's Wal-Mart and France's Carrefour. Now Sir Terry is pushing even harder Tesco's international expansion—a risky business for all retailers.

Despite globalisation, local differences still hold sway over mass retailing, says Sir Terry. What works well in one country does not necessarily work in another. What this means, he cautions, is that building a global retailing business could take "decades of work". The pitfalls are numerous, as many of his rivals already know to their cost.

Wal-Mart, which dwarfs everyone with $285 billion of worldwide sales last year, is also expanding overseas. It is doing well against Tesco in Britain through the Asda chain, which it bought in 1999. But in Germany Wal-Mart is struggling against even more aggressive discounters, such as Aldi. In Japan, Wal-Mart has a controlling stake in the Seiyu retail chain, but losses there have been growing. Wal-Mart's policy of "everyday low prices" is proving hard to sell to the Japanese, who often associate low prices with poor quality.

With operations in some 30 countries, Carrefour is the most international of the supermarket chains. Last month, it announced a 15% fall in net profits in 2004, to €1.4 billion ($1.8 billion). This was partly because of a charge it took on selling its stores in Japan, which it has decided to quit after four years of struggle. Carrefour is also selling 29 hypermarkets in Mexico after troubles there. Jose Luis Duran, the firm's former finance director who became chief executive in February after controlling shareholders forced a boardroom reshuffle, says it is likely that Carrefour will quit any overseas market in which it cannot become one of the top-three retailers.

Tesco has also had a few problems overseas, for instance facing strong competition from discount chains in some central European markets. Even so, Tesco's total international sales grew by 13% to £7.6 billion in 2004. Some 60% of its overseas investments are in Thailand, South Korea, Ireland and Hungary, generating together a return on investment of over 15%. Last year it bought a 50% stake in a Chinese supermarket chain to extend its presence in what many retailers see as Asia's most promising market. Its biggest challenge abroad is to expand beyond hypermarkets into smaller convenience stores, as it has done to great effect at home.

When retailers achieve a dominant position at home the appeal of growing overseas can seem strong—not least because they may face a domestic backlash against their size. Tesco, with almost 30% of Britain's grocery market, has recently found itself having to defend itself against criticism, just as Wal-Mart is doing in America.

To continue growing at home, Wal-Mart is trying to expand into some areas where it is less welcome, such as unionised states and places (such as New York City) that dislike giant superstores. In America

(but not always overseas) Wal-Mart is a non-union firm. This week, a union filed a complaint with the government urging an investigation into allegations—disputed by Wal-Mart—that Thomas Coughlin, a former Wal-Mart executive and friend of the firm's late, legendary founder, Sam Walton, violated federal labour law by financing anti-union activities. Mr Coughlin resigned as Wal-Mart's vice-chairman last month after the firm referred an internal inquiry into expense claims by Mr Coughlin to a district attorney to investigate. With such headaches at home, it is hardly surprising that even the world's biggest retailer finds it hard to deal with the many local difficulties that beset shopkeepers who venture abroad.

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KarstadtQuelle

Middelhoff's way

Apr 14th 2005 | ESSEN
From The Economist print edition

A German capitalist tries to revive a troubled department-store group

THOMAS MIDDELHOFF likes to cultivate his reputation as a rainmaker. This week storm clouds burst over KarstadtQuelle, a beleaguered department store and mail-order group whose supervisory board he has chaired since last June. On April 7th Christoph Achenbach, its chief executive, suddenly resigned, leaving the finance director, Harald Pinger, as caretaker boss. On April 12th Mr Pinger announced results that smacked more of financial creativity than business viability.

Karstadt watchers attribute the removal of Mr Achenbach to a stand-off with Mr Middelhoff, who made headlines himself in 2002 when he was forced out of Bertelsmann, a German media group, where as chief executive he clashed with the controlling Mohn family over his plans to take the firm public. Apparently, the family considered him far too interested in doing the bidding of financial types—an interest he has continued since June 2003 as a partner of Investcorp, a private-equity firm, scouting for acquisitions in Europe.

Surely Mr Middelhoff, a mere overseer, cannot be held responsible for lacklustre sales at Karstadt's department stores? Nor for the reluctance of customers to buy their white goods from Quelle, though it is still a household name? Yet since September, four months after Mr Middelhoff's arrival, there has been nothing but bad news from Karstadt. That month Mr Middelhoff appointed Mr Pinger finance director and made Goldman Sachs the firm's financial adviser. Soon Karstadt announced a restructuring plan, including selling 77 smaller department stores and its logistics division, and laying off 5,700 staff.

The restructuring was linked to a refinancing programme which in turn depended on how soon management could cut a deal with Verdi, a white-collar union, and raise €500m ($648m) of new share capital. The banks applied daily pressure to Karstadt in the run-up to Christmas, the most critical stage of the retail cycle—a very public squabble with the firm's staff that did nothing to help turnover. Even now customers are reluctant to buy goods with a long guarantee, in case Karstadt or Quelle are not around in a few years.

The bankers and other investors mostly felt that KarstadtQuelle had missed the boat. Other German retail giants, such as Metro, had a more modern approach to business and had diversified into growth markets abroad. Two discounters, Aldi and Lidl, along with some specialist fashion outlets, had lured away bargain-hunters.

So it was that on April 12th Mr Pinger launched “KarstadtQuelle Neu”, in a presentation full of growth projections but little passion. A day earlier, Roland Berger, a consultancy, gave a progress report to the banks refinancing Karstadt in which it said that its targets had been met. Yet it is not clear what those targets were. Mr Pinger says that liquidity problems at Karstadt are over—yet the group is seeking a further €300m of high-yield (junk) debt financing from Barclays Capital and Goldman Sachs.

No convincing case has been made for keeping Karstadt and the two mail-order operations, Quelle and Neckermann, within a single corporate group that includes Karstadt's 50% stake in Thomas Cook, a travel agent. So far, the firm is continuing strongly to deny that it plans to break itself up. However, last weekend, in an interview, Mr Middelhoff said that “[we] want to set up all divisions so that they can develop successfully: either alone, or in partnership or through acquisitions.” Sale now on?

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America's media industry

Dolans at peace?

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The struggle over Voom has ended, but Cablevision's future remains uncertain

FEW firms mystify investors as much as Cablevision, America's sixth-largest cable-TV operator. This year its chairman and controlling shareholder, Charles “Chuck” Dolan, fought his own son, James, and his board to save a failing satellite-TV business, Voom, against all prevailing wisdom. Last week, Mr Dolan finally gave in; Voom will vanish from screens on April 30th. But just before that news, Cablevision made a surprise last-minute $16.5 billion bid for Adelphia, a bankrupt cable-operator twice its size. Its shares fell by 5% on the news. This week, as *The Economist* went to press, Cablevision was deciding whether to raise its bid to try to beat a joint offer of $18 billion for Adelphia by cable giants Comcast and Time Warner.

Cablevision's strategy in recent years has been to sell its cable assets outside the New York metropolitan area. Adelphia's operations are as far-flung as Los Angeles and Florida—hence the alarm among investors at Cablevision's bid. And with net debt 6.3 times higher than profits before interest, tax and depreciation, says Sanford Bernstein, a research firm, buying Adelphia would strain Cablevision's balance sheet. Owning Adelphia, which would add 5m subscribers to its own 3m, would not in any case give the firm the clout of Comcast and Time Warner, which have 22m and 11m customers respectively.

Is the bid the chairman's idea, or that of his son and chief executive, James? New strategies from the elder Mr Dolan are now likely to be viewed sceptically by investors, who never understood his perseverance with Voom, which lost $660m in 2004. The service attracted barely 40,000 subscribers, mainly because the market for satellite-TV in America is already adequately served by two large firms, DirecTV and EchoStar. Although Voom tried to differentiate itself with unique, high-definition content, its niche channels—such as one devoted to old monster movies, and another featuring tours of museums and art galleries—were never sufficiently compelling, says Craig Moffett, cable-industry analyst at Sanford Bernstein.

Mr Dolan, a famed entrepreneur and cable-industry pioneer who controls Cablevision with a class of super-voting shares, went to extraordinary lengths to save Voom, with the support of another of his sons, Thomas. This brought criticism from corporate-governance experts. In March he suddenly removed three board directors who had voted against funding Voom, replacing them with business associates including John Malone, chairman of Liberty Media. He then asked the Federal Communications Commission to stop a deal that his own board had approved to sell Voom's satellite to EchoStar.

In the end, says one of the recently departed Cablevision board members, the corporate-governance system worked. Though Mr Dolan controls the voting shares and put friends on the board, the board shut Voom. Yet Cablevision is a classic example of a media firm where the interests of other shareholders can come second to those of a controlling shareholder. As Mr Malone said in a recent interview in *Broadcasting & Cable* magazine, “Chuck's problem is, he's a public company and he really should be a private company.”

If, as seems likely, Time Warner and Comcast succeed in carrying off Adelphia, their smaller rivals will probably try to merge. Having scale in the cable industry is crucial for dealing with giant content providers such as Viacom and Disney and their demands for higher programming prices. In such a round of consolidation, says Mr Moffett, Cablevision is unlikely to be a buyer. But its assets could make it an attractive target. As well as its prized New York cable system, Cablevision owns cable channels such as American Movie Classics, and the Madison Square Garden Group. Plenty of scope, then, for another family row.

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Nestlé

Discomfort food

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A bungled succession

SWISS, solid and sure of itself, Nestlé, the world's biggest food company, is rarely on the defensive. Yet the row over its board's plan to appoint Peter Brabeck as both chairman and chief executive at the annual general meeting on April 14th took the firm by surprise. On April 11th, it released a curious statement saying that there was “no threat of collective resignation of the Nestlé board of directors”.

Nestlé announced in January that Mr Brabeck, its chief executive for eight years, would replace Rainer Gut, the outgoing chairman. Outraged, Ethos, a Swiss pension fund, promptly submitted three proposals to Nestlé's annual meeting. It demanded a change in the firm's bylaws to prohibit the combination of the role of chairman and chief executive, a reduction of the term of office for directors from five years to three, and a lowering of the threshold for proposing motions at annual meetings from holders of 1m shares to 100,000. Institutional Shareholder Services, an American consultancy, backed the first two proposals. This led Mr Brabeck to say in interviews in the Swiss press that he would step down and that the entire board would resign if these motions were to be passed.

Why does Nestlé want to combine the roles of chief executive and chairman when for most of the firm's history the two jobs have been separate? Nestlé says that its ongoing strategic reorientation and the current composition of its board of directors and executive board make Mr Brabeck the best man for both jobs. In other words, there is no strong candidate to take over as chief executive, nor any board member who gets along with Mr Brabeck, is competent and available to replace Mr Gut. “The board has failed in succession planning,” says Gavin Anderson of Governance Metrics International (GMI), a governance-rating firm. It has known for years that Mr Gut would step down at 72, the firm's mandatory retirement age.

Nestlé is swimming against the flow of corporate-governance reform. In Britain, having a separate chairman and chief executive has become standard practice over the past decade; it is that way in 95% of the FTSE 350 firms rated by GMI. France, where the *président directeur général* (combined chief executive and chairman) has traditionally wielded substantial power, is now moving in the British direction: Alcatel, L'Oréal, Renault and Carrefour recently split the roles of chief executive and chairman. In Germany, the chief executive (head of the *Vorstand* management board) and chairman (head of the supervisory board) are separated by law. And in Switzerland most big firms have split the role of chief executive and chairman in recent years, though Novartis and Roche, two big drug firms, still combine the two. Even in America the tide is slowly turning. In 2002 one-quarter of the *Fortune* 500 firms rated by GMI split the roles of chief executive and chairman. About one-third do so now.

The Ethos proposal is not a personal attack on Mr Brabeck, says Stephen Davis of Davis Global Advisors, a governance consultancy. Mr Brabeck has done a good job as Nestlé's boss. Yet he should not have unlimited power. Under Swiss corporate law, a firm's chairman performs more than a supervisory function; he is also jointly responsible for strategy. And at Nestlé, the chairman is one of the three members of a committee that sets executive pay. (Mr Brabeck promises to opt out of decision-making on his own remuneration.) In an implicit admission of the risk that power might become over-concentrated in Mr Brabeck, Nestlé says it will elevate two board members, Andreas Koopmann and Rolf Hänggi, to be vice-chairmen.

Not even Ethos expects its proposals to win a majority of shareholder votes at the annual meeting, under way as *The Economist* went to press. Its intent was to send a signal. “We are hoping Nestlé will accelerate its search for a new chief executive,” says Dominique Biedermann of Ethos. Mr Brabeck is 60, whilst Nestlé's mandatory retirement age for its chief executive is 65. Yet, says Mr Biedermann, because

of his new role Mr Brabeck may now step down within six months or a year. In short, thanks to poor succession planning for its chairmanship, Nestlé risks losing a good chief executive early.

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Tungsten

Hard luck

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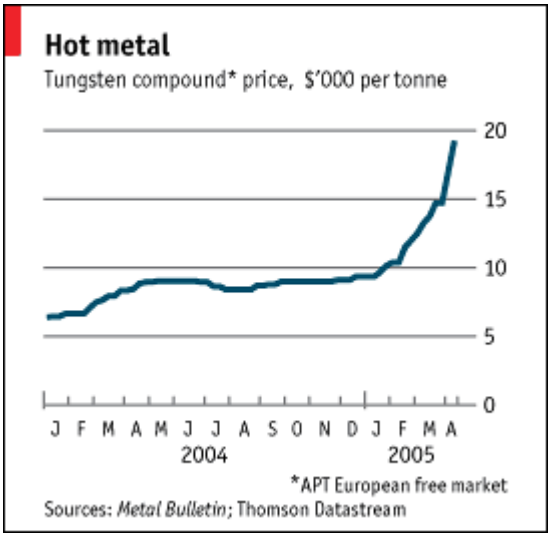
Demand is up, prices have rocketed. The biggest supplier knows why



IT HARDENS anything from saw blades to turbine blades. It goes into light bulbs and weaponry. America's government has a stockpile that could meet all that country's demand for the next three years. It is tungsten, and its price has gone crazy. Why? China controls 85% of world output, uses maybe 35-40% of it—and as demand has risen, has taken steps that cut supply.

Inside China, prices rose sharply last year, by some 70% for the concentrate that leaves the mine. But this year they have rocketed. As 2005 began, exporters were offering APT—ammonium paratungstate, a "downstream" compound about 80% made up of the metal—at around $9,000 a tonne; last week, $19,000; this week, nearly $22,000.

China's own demand, up by 20-30% last year, was one reason. Others, says Philippe Lavagna, at Specialty Metals in Brussels, were more unusual. China's government has been trying for years to close down the many small, illegal mines. Last year it got tough, blocking deliveries of mining explosives to them. Most of them shut. On top came electricity shortages, hitting large mines too. Meanwhile, China Minmetals, a giant state company, took over one of the biggest producers in Jiangxi province.

The resultant Jiangxi Tungsten has done much to "stabilise" the market, says one of its executives. Really? According to its own figures, in 2004 other Chinese miners raised output by 17% but Jiangxi only by a bit under 5%. Some small miners began to stockpile and, ignoring contracts, refused to supply Chinese processors except at higher prices. And the export quota set by the government was actually cut.

Russia apart, the world has few other potential sources: a large Canadian mine, closed in December 2003 because its customers went off to buy cheaper elsewhere; a smaller Tasmanian one, also idle; one in Portugal; and a few tiny mines here and there. A big opencast mine in Vietnam planned by another Canadian company is likely to come on stream only in late 2007.

Still, rocketing prices have done one good thing. As it ceased production, North American Tungsten, owner of the closed Canadian mine, had to seek protection from its creditors. Today it has settled with

them, raised fresh capital, plans soon to reopen its mine and is talking of a second one.

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Internet addresses

The name game

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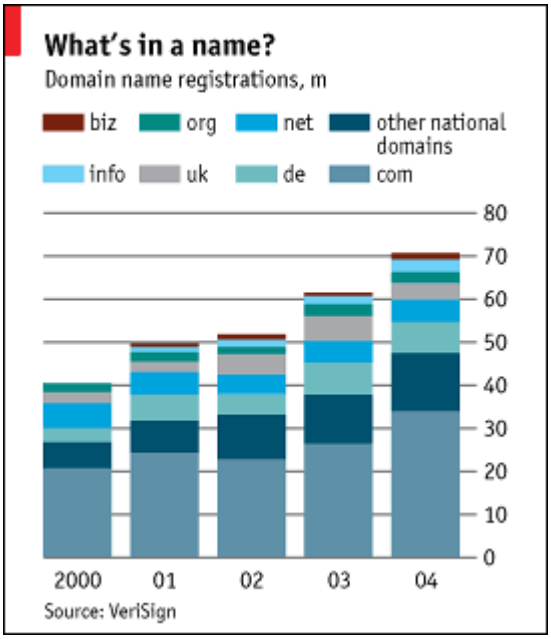
An online power struggle

IT IS not easy running the internet's address system. Since it was founded in 1998, the Internet Corporation for Assigned Names and Numbers (ICANN), a self-regulatory body, has been under constant fire from critics on all sides. As it held a public board meeting last week in Argentina, it found itself grappling controversially with two new disputes.

The first concerns a new domain called .pro—a rival to .com and others, intended for professionals, such as lawyers and doctors. Registrants are supposed to show professional credentials. But soon after last June's launch of .pro, a firm handling registrations exploited a loophole to "lease" names to otherwise unqualified people. Thus, sex.pro—and every imaginable sex-inspired term—is alive on the web.



ICANN has complained to the firm, and says it will inspect the contractual agreements to see what it can do to enforce compliance. How ICANN exercises such powers will be closely scrutinised in light of two new domains that it authorised at last week's board meeting, .jobs and .travel.

The second dispute is about .net, which accounts for around 5.5m domain names (see chart) and around 30% of webpage views. The contract with VeriSign, the firm that administers .net, expires in June and is out to tender. ICANN used an independent examiner to evaluate the bids, and ranked VeriSign's the best. Yet the examiner, Telcordia, has disclosed financial ties to, and rivalries with, some bidders, prompting questions about its fairness. ICANN says it will examine these complaints as it negotiates with VeriSign.

The two controversies call into question whether ICANN, as a private-sector body with only light governmental representation, is up to the task of managing the internet's domain name system and whether the United Nations (UN) should take over—which it wants to do. The UN has set up a working group, due to report this summer, on the role that nations ought to play in managing the internet.

Last year, VeriSign unilaterally sought to commercialise a technical process related to .com that created

problems for some users. ICANN ordered VeriSign to stop. In turn, the firm sued ICANN, questioning its authority. Letting VeriSign continue to run .net may allow ICANN to turn an enemy into an ally at a time when it faces challenges to its power.

In the end, although no one is particularly satisfied with the job being done by ICANN, its best defence is that the main alternative—handing over the internet's critical infrastructure to an intergovernmental cacophony—would surely be worse.

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Online gambling

Jokers wild

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Who was really the winner from the WTO's gambling decision?

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GAMBLING is not prohibited by the Ten Commandments, nor is it one of the seven deadly sins. Still, America bans almost all forms of wagering when it happens by phone or internet, on the grounds of protecting “public morals”. That ban violates free-trade rules for services, complained the islands state of Antigua and Barbuda to the World Trade Organisation (WTO). On April 7th, a WTO appeals panel reached a decision that both sides have claimed as a victory.

The WTO agreed with most of Antigua's claims that America's practices are inconsistent and discriminate against foreign operators (because America allows online horse-race betting, but only for operators authorised by American states). However, the WTO also concluded that America's “public morals” exception is allowed, as long as America resolves the horse-racing inconsistency. As a result, America intends to tweak the law, yet continue to ban online gaming generally.

The ruling will not change much for the online gambling industry, which has estimated revenues of $10 billion annually, half from Americans. Although America outlaws both supply (websites) and, occasionally, demand (users)—and even threw one website owner in prison—enforcement remains almost impossible. Credit-card firms and PayPal, an online payment service, refuse to process transactions between Americans and online betting operators—but other financial intermediaries are more obliging.

This is the first time that the WTO has considered the “public morals” defence and accepted it. It may in future be used in other ways: for example, to justify a country banning on ethical grounds goods made by child workers, says Andrew Guzman, a law professor at Berkeley.

The issue of online gambling may yet find its way back to the WTO. Several American states, which have authority over gambling, are vying to legalise statewide online gaming. In the long run, America's prohibition is unsustainable, reckons William Eadington of the University of Nevada, because regulating, taxing and letting American firms compete against offshore rivals makes far more sense. Australia allows online gambling, but regulates it and collects tax revenues. Britain plans to do likewise, to encourage high-street betting shops that host internet sites offshore to return home.

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Face value

The alchemist of paper

Apr 14th 2005
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Landov

Bruce Chizen, the boss of Adobe Systems, wants to end bureaucracy as we know it

“IT'S exciting; we get to change society once again,” says Bruce Chizen, boss of Adobe Systems, the firm behind the popular PDF (or “portable-document-format”) files that are widely downloaded and e-mailed around nowadays. This is not, he adds, about making offices “paperless”, as some people—ludicrously, in retrospect—were predicting a decade ago. Instead, it is about bridging the separation between paper and electronic files in order to make all documents, in whatever form, “intelligent”, thereby blasting apart the way that paper-pushers in government and corporate bureaucracies work today.

If his vision becomes reality, it would be a remarkable vindication for Mr Chizen, who was not at Adobe when it last “changed society”—by launching the desktop-publishing revolution of the 1980s and early 1990s. John Warnock and Charles Geschke, Adobe's bearded and boffinish founders, had invented PostScript, software that allows printers to reproduce text and graphics exactly as they appear on computer screens. It was followed by Illustrator, Photoshop and InDesign, three applications used by creative types everywhere.

But Messrs Warnock and Geschke were lovable technophiles who proudly intoned that they were not in it for the money. As a result, Adobe never grew anything like as rich or powerful from its revolution as other software companies, notably Microsoft, did from their own. The founders realised during the 1990s that Adobe had to outgrow its “garage” culture. So they gradually handed over the firm to Mr Chizen, who had joined Adobe in 1994 as a marketing—and decidedly not an engineering—talent. Tough, and with a large dose of Brooklyn chutzpah, Mr Chizen in 1998 turned Adobe's culture upside down, introducing hierarchies, performance reviews and the like. In 2000, he became chief executive, and the founders co-chairmen.

That allowed Mr Chizen to return to his main passion, salesmanship, and in particular to a software application called Acrobat, the one Adobe product that has always been targeted at the wider business (as opposed to the narrower graphics-and-design) market. Acrobat turns any file type into a PDF document that will look, on screen and in print, exactly as intended, regardless of the computer or operating system. To open an Acrobat file, viewers need a bit of viewing software, called Reader, which allows users to fill in on-screen forms.

In the 1990s, when the internet was young and broadband connections rare, Acrobat was going nowhere.

Adobe initially charged for Reader, and with few Readers there were few reasons to buy Acrobat. But gradually things changed. Adobe started to give Reader away, and broadband connections became common. Today, Reader is becoming ubiquitous, creating a huge audience for PDF files, and thus a market for Acrobat.

This has given Mr Chizen the opportunity to develop the market for Adobe products in a new direction. Last week, he was in Brussels to demonstrate how. Belgium will be the first country in the European Union to give its citizens electronic ID cards. And by plugging these cards into the USB ports of computers that have Reader, Belgians will soon be able to “sign”—ie, digitally authenticate and seal—PDF documents such as tax forms, mortgage applications, patent approvals and anything else that today requires a signature in ink.

The news is not that these forms can then be submitted electronically for instantaneous processing. Rather, it is what happens to those forms that are submitted on paper (because the owner is offline, say). Today, such loose-leaf is the atavism that disrupts all those bureaucratic workflows that are allegedly already electronic. For instance, billions of PDF forms have been downloaded from the website of the IRS, America's tax agency, in the run-up to this week's filing deadline. But most of these were then printed out and sent by mail, for poor drudges in some back office to type again into a computer. What a bore.

Adobe's trick—in effect, a sort of alchemy that turns paper into computer code—is a clever bar code at the bottom of its latest PDF documents. As a PDF form gets filled in on a computer, this bar code constantly changes so that all the information is captured. This includes not only the obvious (name and address, say) but also higher forms of “intelligence”, such as audit trails (who has read this form?), access privileges (who may view or e-mail it?), and business logic (who needs to see this form next?). When the form is then printed and sent as paper, it only needs to be scanned at the other end for all the data to enter their destination computers as if the form had stayed electronic all along.

What if Microsoft notices?

Insofar as this promises, one day, to end bureaucracy as we know it, everyone should be happy. But Mr Chizen's brief is to win Adobe's shareholders, this time, a disproportionate share of the joy. That is why, he says, he spends most of his time thinking about three things: Microsoft, software platforms and workflow.

Microsoft, Mr Chizen says, is scary because “PDF caught them by surprise”. As the business enters a new phase, Microsoft may see an opportune moment to trample into it. Mr Chizen, who in 1987 made the financially costly choice to leave a senior position at Microsoft to join a subsidiary of Apple, just as Microsoft began to clobber Apple (and others), knows what that usually leads to. Software platforms, he says, are crucial because of their network effects. Microsoft succeeded by making Windows a platform; Adobe can succeed by turning Reader into a platform, and building Acrobat and other applications on top. And workflows matter because that is where bureaucracies today get stuck, and where intelligent documents will make a difference. “This can easily become a $5 billion-a-year company,” says Mr Chizen. (Adobe is now barely a $2 billion-a-year company.) Failing that, it can at least, once again, change society.

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About sponsorship

Simplifying tax systems

The case for flat taxes

Apr 14th 2005
From The Economist print edition

Pioneered in eastern Europe, flat tax systems seem to work because they are simple

AN ARTFUL taxman, according to Jean-Baptiste Colbert, treasurer to Louis XIV, so plucks the goose as to obtain the most feathers for the least hissing. Such arts are lost in America. As the April 15th deadline for filing tax returns falls due, the hissing is as audible as ever. But Americans are not alone. New Zealand's tax code instils “anger, frustration, confusion and alienation” in the islands' businessmen, according to a 2001 report to ministers. Adam Smith spoke for many when he bemoaned the “unnecessary trouble, vexation, and oppression” the people suffer at the hands of the tax-gatherers.

The White House claims to be listening. Shortly after his election victory, President George Bush set up a panel to advise him on how to reform the tax system. A report is expected this summer. Judging by the remit he has given them, Mr Bush wants to iron out some of the kinks in the tax code that distort saving and deter work, while retaining tax breaks for charity and home-ownership. But he also wants to simplify the tax code for simplicity's sake.

The Americans are talking about it. Meanwhile in Europe, east of Vienna and as far afield as Russia and Georgia, they are actually doing it. In 1994, Estonia became the first country in Europe to introduce a so-called “flat tax”, replacing three tax rates on personal income, and another on corporate profits, with one uniform rate of 26%. Simplicity itself. At the stroke of a pen, this tiny Baltic nation transformed itself from backwater to bellwether, emulated by its neighbours and envied by conservatives in America who long to flatten their own country's taxes.

How simple can it be?

Flat tax rates on personal income, %

Country	Rate	Year introduced
Estonia	26	1994
Lithuania	33	1994
Latvia	25	1995
Russia	13	2001
Serbia	14	2003
Ukraine	13	2004
Slovakia	19	2004
Georgia	12	2005
Romania	16	2005

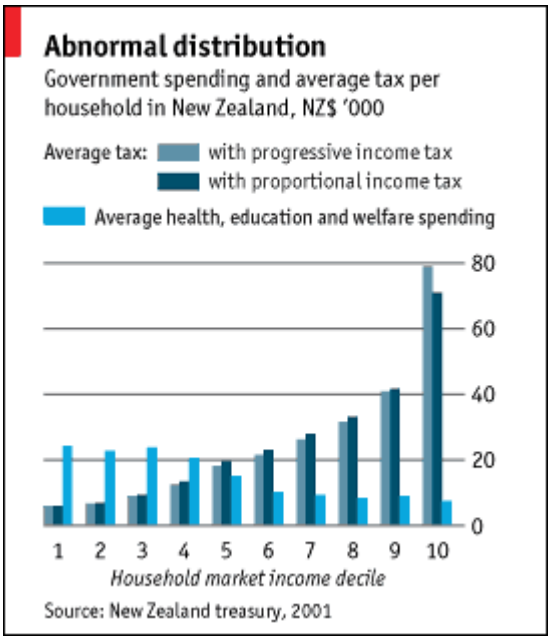
Latvia and Lithuania, Estonia's Baltic neighbours, promptly followed its example. In 2001, Russia too moved to a flat tax on personal income. Three years later, Slovakia imposed a uniform 19% rate on personal and corporate income, and set the same rate for its value-added tax (VAT) too, for the sake of symmetry rather than economic logic, it seems. In Poland, Civic Platform, a centre-right opposition party, wants to mirror Slovakia, only at the lower rate of 15%. In all, eight countries have now followed Estonia (see table).

Might America do the same? The tax system there has been debated for years. William Simon, America's treasury secretary under President Richard Nixon, wanted a system that looked “like someone designed it on purpose”. But the bewildering bulk and complexity of a modern tax code is not only the result of poor or malicious design.

Fairness is the chief reason why most countries have imposed multiple rates of tax. In Canada, Australia and the European Union, for example, staple foods, but not restaurant meals, are exempted from value-added tax. This is deemed fair because the poor spend a greater share of their income on unprepared food. It can lead to nonsense, however. Jeffrey Owens and Stuart Hamilton of the OECD point out that hot roast chicken is taxed, but cold roast chicken is not. “Does anyone expect tax administrators and business owners to have thermometers on hand when they do their tax calculations?” they ask, only half in jest.

In Luxembourg tax collectors work with no fewer than 17 different tax brackets, to ensure rich Luxemburghers pay a greater proportion of their income than their slightly less rich countrymen. The international trend, however, is away from such pointillism towards broader brushwork. Between 2000 and 2003, the OECD reports, seven of its members (including Luxembourg) cut the number of brackets, although Canada, Portugal and America all added one.

Fewer brackets are simpler to administer, but one bracket is simplest of all. Under a pure flat tax, the taxman takes the same cut from the last dollar you earn that he took from the first. The appeal to high earners is obvious. But the administrative elegance of such a system is not so immediately apparent. Because every dollar is taxed at the same rate, it does not matter to the tax collector how many dollars are going to whom. Thus, in principle, the taxman could simply withhold 20% of a company's payroll, without needing to know who was paid what. Add a second rate of tax, however, or a personal exemption, and the tax collector must find out how much money is going into each pay packet before he can be sure of collecting the right amount from the right person. In America, for example, the tax collector needs to tax the wage packets of 130m or more employees, rather than simply taxing the payrolls of 8m or so enterprises.



How much fairness is gained for all this extra complexity? Surprisingly little, suggest Messrs Owens and Hamilton. In New Zealand, for example, only the richest tenth of households pay much more under the country's progressive income tax than they would under a 25% flat tax (see chart). Most of the redistribution in New Zealand is carried out on the other side of the government's ledger, by spending more money on poor people.

To the layman, a flat tax simply means a single rate of income tax. But the connoisseur of the flat tax can distinguish several different varieties. In America the flat tax is associated with a proposal advanced by Robert Hall and Alvin Rabushka, two economists at the Hoover Institution. Their tax, which falls on businesses and households, and allows a personal exemption, is designed not to tax saving. It thus resembles a consumption tax, such as VAT, more than a traditional income tax, which is typically also levied on returns to saving, such as interest and dividends. Slovakia, which taxes profits firms make, but not the dividends they distribute, perhaps comes closest to this model.

Flat, not low

Nor are flat taxes synonymous with low taxes. Certainly, most countries have cut their tax rates as they have flattened them. In 1994, Ukraine's top rate reached the stratospheric level of 90%, before descending, in stages, to its current single rate of 13%. But Lithuania's 33% flat rate is too high for some American conservatives.

Nevertheless, Lithuania's example might make flat taxes more palatable to the social democrats of western Europe. Miguel Sebastián, an economic advisor to Spain's socialist government, has advocated (largely in vain to date) a flat tax of 30% on Spanish incomes. Last year, a panel of academics set up by Germany's finance ministry also proposed a 30% flat tax on all personal and corporate income.

Flat taxes differ in scope as well as height. Since 2001, Russia has imposed a single 13% tax rate on all personal income. But it has a different rate for corporate profits: 35% at the time of its 2001 reform. Slovakia's flat tax, by contrast, covers both personal income and corporate income, as well as VAT. Taxing pay packets and profits at the same rate discourages an obvious form of “tax arbitrage”. For example, it was reportedly quite common for Slovak salarymen to declare themselves self-employed, while continuing to work for the same company much as before. Their wages would then be taxed as profits. Not only that, their lunch could be counted as a business expense.

Unfortunately, Slovakia's fiscal purism is somewhat adulterated by a heavy payroll tax. The social-security contributions of employees and employers combined amounted to almost half of labour income in 2004. Since this burden falls on earnings from work, not from capital, it restores the incentive for Slovaks to convert one into the other, by declaring themselves self-employed subcontractors. It may also drive some economic activity into the shadows, where the social-security agency cannot find it.

At the time of its reform, Estonia also taxed labour and capital at the same rate. After 2000, however, it chose not to tax profits at all until they are distributed to shareholders as dividends. This gives companies an incentive to retain their earnings and reinvest them. Indeed, very little of the burden of taxation in Estonia falls on corporations directly: corporate taxes accounted for only 3.6% of total tax revenues in 2003.

Estonia's economy has grown impressively since its 1994 reform. Growth reached double digits in 1997, and has since settled at around 6% annually, after a slump at the turn of the century. Repealing its high tax rate on the rich did not erode the country's tax base as some might have feared. In 1993, general government revenues were 39.4% of GDP; in 2002, they were 39.6%. Estonia now plans to cut its flat tax from 26% to 20% by 2007.

But how much do Estonia's robust revenues owe to its flat income tax? Perhaps less than is frequently advertised. In 1993, the year before its reform, Estonia's multiple personal income taxes raised revenues amounting to 8.2% of GDP. In 2002, its flat income tax raised revenues worth just 7.2%. Indeed, the flat income tax that generated so much excitement abroad seems to be carrying less weight than Estonia's old-fashioned VAT, which raised 9.4% of GDP in revenues in 2002.

VAT is, of course, the flattest tax of all. It levies a uniform rate on the goods you buy, taking a constant cut of your money when it is spent as opposed to when it is earned. Estonia's VAT is also quite broad, leaving relatively few things out (hydropower and windpower were two curious exceptions). The same point could be made about Slovakia. At 19%, it has a relatively low rate of income and corporate taxes, but one of the highest rates of VAT in Europe. It may be this high rate of VAT, not the flattening of its other taxes, that sustains the government's revenues in the future.

Flat taxes on the steppes

The most remarkable turnaround in government revenues was recorded in Russia. Prior to its 2001 tax overhaul, the federal government's tax-raising powers were rapidly deserting it. Clifford Gaddy and William Gale of the Brookings Institution report that tax arrears amounted to 34% of collections in 1997. By 1998, federal revenues had fallen to just 12.4% of GDP, leaving the government unable to pay its creditors. Investigators appointed by the president revealed that Russia's biggest enterprises ignored 29% of their taxes and paid another 63% in kind, with goods and services the government might or might not want. In lieu of $80,000 in taxes, one company reportedly offered the government ten tonnes of toxic chemicals.

On January 1st 2001, Russia flattened and broadened its personal income taxes, collapsing 12%, 20% and 30% bands into a single, uniform 13% rate. The state also withheld taxes at source, identified taxpayers by number, and audited suspected tax-dodgers. Messrs Gaddy and Gale note that no tax system could hope to bring in much revenue without these rudimentary instruments of tax enforcement.

How did revenues respond? A year after the reform, the personal income tax was raising almost 26% more revenue in real terms. Some of this was due to the rebound in the economy: real wages grew by 12% that year, and the take from all taxes, flat or otherwise, consequently improved. But the surge of rubles encouraged by the flat tax was more sustained.

A careful study by two IMF economists, Anna Ivanova and Michael Keen, together with Alexander Klemm, of the Institute of Fiscal Studies in London, tries to unearth the causes of this pleasant fiscal surprise. They find little evidence that Russians, freed from the yoke of progressive taxation, suddenly started working much harder. This is perhaps not surprising, as Russia's reform actually raised personal income taxes for the many households that previously fell into the 12% bracket.

They did discover a conspicuous increase in compliance with the tax authorities, however. In the year before the flat tax, Russians in the two higher tax brackets reported only 52% of their income to the taxman. In 2001, after falling into the new, all-encompassing 13% bracket, these same households reported 68%.

Many advocates of the flat tax, particularly in America, argue that it sharpens the incentive to work. A progressive income tax, they claim, deters extra effort from society's best-paid (and therefore most productive) members. Russia's experience, however, suggests that the principal virtue of the flat tax is its simplicity. The government's revenues did not surge because Russians suddenly squared their

shoulders and straightened their backs. Rather, Russia's tax system became easier to administer and easier to comply with.

America is not Russia. It has a functioning tax system, albeit a clumsy one, so has something to lose from uprooting its tax system and starting again. But the potential gains are not negligible. In a typical year, the IRS estimates that for every dollar it collects, another 19 or 20 cents is owed, but not paid. This shortfall amounted to between $312 billion and $353 billion in 2001. Small businesses fail to report about 30% of their earnings. Babysitters and gardeners fail to report 80%, says the IRS.

In part, the tax system is burdensome because people dodge it. Every loophole that is exploited must be plugged. Every blurry line that is crossed must be sharpened. But Messrs Owens and Hamilton worry that the tax-codifiers and the tax-dodgers are locked in a mutually destructive “arms race”. The code is made more complex, because of tax wheezes. More people then seek to avoid taxes. The best way to fight tax avoidance, then, is with simplicity.

As every American knows, their country was founded in the wake of a tax revolt. What most forget is that the so-called “Boston tea party”, a raid on the cargo of British ships in Boston harbour, was not provoked by a tax hike. The British had in fact scrapped duties on tea, cutting out commercial middlemen. It is not going too far, then, to suggest that the American Revolution was provoked by a simplifying tax reform. Mr Bush must hope his own reforms, should they ever see the light of day, will encounter less stiff resistance.

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Tax compliance in America

The burden of complexity

Apr 14th 2005
From The Economist print edition

The costs of complying with America's tax rules

Get article background

AS ADAM Smith noted, taxes are often “much more burdensome to the people than they are beneficial to the sovereign.” In America, some have tried to estimate exactly how much more burdensome. The Treasury estimates the total costs of complying with the income tax at about $125 billion a year.

The Internal Revenue Service (IRS) itself is quite lean. Its staff numbers actually fell by 15% between 1993 and 2001. For every $100 it raises in net tax revenue, the IRS costs just 52 cents; its French counterpart costs $1.44, according to the OECD. Adam Smith bemoaned the “frequent visits and the odious examination of the tax-gatherers,” but the chances of being audited by the IRS are much lower than most Americans assume. Jeffrey Owens and Stuart Hamilton, of the OECD, reckon the IRS has only enough auditors to check the books of each American business for one day every ten or 11 years.

The miserly budget of the IRS is, of course, only one part of the total cost of complying with America's tax code. According to a somewhat dated study by Marsha Blumenthal and Joel Slemrod, two respected tax scholars, it takes the average American taxpayer 27.4 hours to file his taxes. But the burden varies greatly. Just under 30% of filers spend less than five hours. These taxpayers perhaps have little cause to hiss.

Besides, all such estimates have to be taken with several grains of salt. Most official estimates are based on a survey that is almost 20 years old. Taxpayers were asked how many hours they spent keeping records, deciphering the tax code and filing their 1983 tax forms. But their answers may have little relevance today. The task of complying with the tax code is now easier (thanks to computers) but also more difficult, because of the code's seemingly organic annual growth in length and obscurity.

The common proxy for this extra difficulty is the number of new words added to the code since the survey was taken (about 500,000). But extra words do not necessarily mean extra complexity. When the Australian government tried to translate its tax rules into plain English it discovered that five lines of code could decompress into as many as five pages of comprehensible prose.

In part, “trouble, vexation and oppression” are the price Americans pay for the tax exemptions, deductions and concessions they cherish so much. As well as raising revenue, America's tax code is charged with inspiring charitable giving, promoting homeownership, defending marriage and delivering pork to the favoured constituencies of ambitious congressmen. If America's tax system asks a lot of its citizens, it may be because they ask a lot of it.

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The world economy

Running out of puff?

Apr 14th 2005
From The Economist print edition

The global economy may not be as strong as it looks

SPRING in Washington means the arrival of cherry blossom and, less colourfully, the world's central bankers and finance ministers, for meetings of the World Bank and the International Monetary Fund. As the officials gather this weekend, their mood might not match the season. Top of their list of worries is the thought that high oil prices might be pushing the world economy into trouble.

Although oil prices took a tumble this week (see article), the policymakers' concern is understandable. Oil prices are still 70% higher in real terms than they were two years ago. Granted, that pales against the great leaps of 1974, when prices jumped by 185% in real terms, and 1978-79, when they rose by 158%; but it is quite some climb nonetheless.

Lately, official worries have been publicly vented. On April 7th economists at the IMF caused a stir when they suggested the world needed to get used to a “permanent oil shock”. Thanks to strong demand and tight supply, they argued, oil prices would be substantially higher in future than they had been in the 1990s. Jean-Claude Trichet, president of the European Central Bank, recently pointed to the rise in oil prices as an “unwelcome” risk to global economic growth. In a comment reminiscent of the 1970s, he urged consumers to become “good energy savers”.

His remark is not surprising, given that the economies in Europe are stumbling. Unemployment in the euro area is 8.9%; in Germany, France and Spain it is in double digits. Manufacturing in the single-currency zone has stalled. In its latest World Economic Outlook, published this week, the IMF, like other forecasters before it, slashed its forecast for euro-area GDP growth this year, to 1.6%. The world economy's other weak link, Japan, faltered half-way through 2004 and despite the odd spark has not yet sputtered into life again. Rising oil prices have helped neither of these giant weaklings.

Even in America, where the strength of the expansion has consistently surprised economists, there are nascent signs of slowdown and worries about oil. With job growth scarcely topping 100,000, the March employment report was much weaker than expected. Retail sales grew by only 0.3% (month-on-month) in March, less than half of what analysts had expected, suggesting that record petrol prices were wearing

holes in consumers' pockets.

No wonder that oil will be high on the agenda in Washington this weekend. In the World Economic Outlook, the IMF reckons that global growth in 2005 will be 0.8 percentage points lower than last year. It ascribes around a third of the reduction to higher oil prices. Even that forecast was based on prices slightly lower than they are now. More worrying, economists think that oil prices do not have a linear impact on output. Beyond some point (trouble is, no one knows what) they begin to hit harder.

So far, however, it is perhaps remarkable how little impact rising oil prices have had. Last year, after all, global GDP grew by 5.1%, the fastest rate in a generation. There are several reasons for this. The world economy is much less oil-intensive than it used to be. In contrast to the supply shocks of the 1970s, much of the recent run-up in prices has been caused by rapidly rising demand: oil is dear in part because some economies, especially America's and China's, have been growing vigorously. Central banks' strong reputations for fighting inflation have stopped the translation of higher oil prices into wage-price spirals. These fortuitous conditions may not last, but for now they are good reasons not to be too pessimistic.

High oil prices do, however, exacerbate the real weakness in the world economy: the imbalanced nature of global growth. Behind the robust overall performance lies a stark dichotomy between the robust (America and China, in particular) and the wheezing (Japan and continental Europe). Even though all these countries are oil importers, they have reacted very differently to higher prices. America and China have, so far, shrugged them off, while weaker economies have seen domestic demand shrivel further. This has exaggerated already gaping external imbalances, particularly America's soaring trade and current-account deficits.

According to statistics released on April 12th, America's monthly trade deficit reached a record $61 billion in February (see chart). The climb in oil prices may mean another record in March—although much of February's increase reflected sharp growth in non-oil imports, which were 16% higher than in February 2004.

Brad Setser, a former Treasury official who is now at Roubini Global Economics, an economic-analysis firm, reckons that if non-oil import growth continues at its recent pace and the oil price stays over $50 a barrel, America's annual trade deficit would reach nearly $800 billion by the end of the year. That said, the figure may not get that high, because $50 oil ought to dampen American consumer demand and hence import growth.

Be happy, it's spring

It is possible to be sanguine about America's ever more colossal deficits, just as it is about oil. Certainly, the doomsday scenarios of a dollar crash or a hard landing for the American economy are not in sight. America has had little trouble attracting the necessary capital to fund its soaring deficits. Though Asia's central banks are still big purchasers, they are not the only ones. Thanks to soaring prices, oil exporters have been building up their surpluses. Russia's foreign-exchange reserves, for instance, are now over $130 billion. Many of these oil exporters are choosing dollar assets. The dollar has strengthened since the

beginning of 2005 and long-term interest rates remain remarkably low.

This calm may explain why the world's finance ministers have done so little to wean themselves off their addiction to American-led growth and why they will spend most of their time in Washington fretting about oil. That is a pity, for while the oil price seems to be the most imminent risk, the size and rate of growth of the global imbalances are the real reason to worry. If the world economy continues on autopilot, those imbalances are set to increase. And you do not need to be a Cassandra to predict that, eventually, they will create a nasty problem.

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Oil prices

The bears appear

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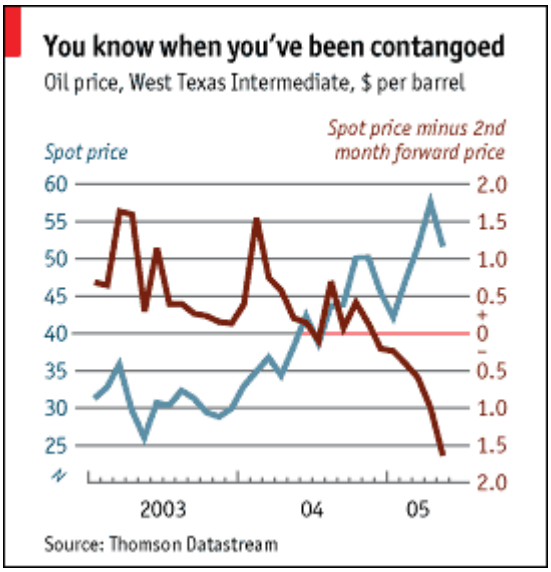
The oil market softens a bit



IT MAY seem absurd to ask, but has the price of oil peaked? Only last week, the price of West Texas Intermediate (WTI) breached $58 a barrel for the first time. Goldman Sachs, an investment bank, gave warning recently that “super-spikes” of $100-plus might come. Yet there has been plenty of bearish talk too. This week, the bears were having their way, as the price of WTI slid back towards $50.

Their case rests on three arguments. First, fundamentals. On the demand side, Chinese oil consumption is slowing at last. The International Energy Agency (IEA) says that in January and February, Chinese demand was only 5.4% greater than a year before, having risen by 20.8% in the year to early 2004. Supply is rising too: the output of the Organisation of Petroleum Exporting Countries (OPEC) rose by 300,000 barrels per day in March, estimates the IEA. With stocks also growing, the agency concludes, “there seems less reason for concern.”

Second, the market is in “contango”—meaning that the spot price is below the forward price (see chart). In bull markets, this is often a sign that prices are on the turn. Oil stocks are likely to rise, because purchasers will load up at today's lower prices rather than wait, thereby easing prices in a few months' time. Alan Greenspan, chairman of the Federal Reserve, recently cited the contango as a reason why he was relaxed about oil prices.

The third and most contentious argument concerns speculators. Official data suggest that the net long positions (in effect, bets on higher prices) held by non-commercial investors are the largest for a year. Hedge funds have long been blamed for pushing up prices. But it seems that pension funds, which used to regard direct exposure to oil as too risky, are joining in.

In the past year or so, seeking fatter returns than on shares and bonds, they have piled in, helped by structured products that were pioneered by Goldman Sachs and linked to commodity indices run by Goldman, Morgan Stanley and others. Simply put, every month investors sell spot and buy one month forward. Some blame this device for pushing the market into contango.

Goldman vigorously denies this. The bank's Jeffrey Currie estimates that pension funds, hedge funds and others, even combined, cannot shift the oil price by more than about $7 a barrel. Philip Verleger, an energy economist, is not so sure. He thinks that the scale of pension-fund investment could be far higher than Goldman believes, and worries that this inflow could be inflating a bubble.

In essence, he says, the new investment is a huge bet on higher oil prices. The trouble is that there are not enough sellers in the futures market. Oil-producing countries and oil companies dislike hedging against rising prices. So do many institutional investors, who buy oil shares precisely for exposure to rising prices.

For all that, a crash remains unlikely, and there may be more upward spikes. But there is a lot of froth. If the fundamentals erode faster than expected, prices could fall sharply as speculators rush out. Investors are in for a bumpy ride.

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The New York Stock Exchange

Specialists stumble

Apr 14th 2005
From The Economist print edition

Charges against its middlemen roil the Big Board

LOTS of money can be made in the tiny gaps between the buying and selling prices of shares. But the “specialists” on the New York Stock Exchange (NYSE), who match buy and sell orders, walk a fine line between their duty to their customers and that to their employers. Too fine, it seems. This week federal prosecutors in America charged 15 specialists with making $19m for their firms from improper trading. At the same time the Securities and Exchange Commission (SEC) settled civil charges against the NYSE for poor oversight of its floor, where most trades are still done.

The SEC also brought civil charges against 20 specialists (including those criminally charged) for “pervasive” fraudulent trading between 1999 and 2003. The reason, says the commission, was that the specialists traded for their own accounts when they should have been filling customers' orders first. (Specialists are allowed under certain circumstances to buy and sell stocks for their firm; this helps keep the market moving if liquidity is low.) For example, when a buy order comes in at a higher price than a sell order, the specialist's duty is to match the customers rather than profit from the spread. The SEC says that some such practices went awry—and also that the specialists sometimes abused their positions by trading in advance of customer orders.

The specialist firms—which include elite names such as Bear Wagner and Spear, Leeds & Kellogg (a Goldman Sachs subsidiary)—have been braced for this blow. Last year the companies settled with the SEC for over $240m. One of them, a Dutch firm called Van der Moolen, has seven ex-traders facing charges this week.

For the NYSE, it is another black mark for its efforts at self-regulation, though its standards have been toughened since 2003. The exchange got into trouble with the SEC in 1999, when it was charged with failing to stop illegal trading schemes perpetrated by groups of floor brokers. As part of this week's settlement, in which the Big Board, as in 1999, neither admitted nor denied charges, the NYSE is due to pay $20m to buttress supervision of its regulatory system. It must also begin pilot video and audio surveillance of floor trading of certain highly liquid stocks.

This week's charges may hasten the exchange's switch away from the floor. “Electronic trading systems are much less scandal-prone,” says Benn Steil of the Council on Foreign Relations. The NYSE already plans to become more electronic—and, says Mr Steil, if John Thain, the chief executive, and Marshall Carter, just appointed as chairman, want to get serious about an initial public offering, the trading floor might just have to go altogether. Specialists would rue that day, but would have only themselves to blame.

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Lazard

A strange floating world

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The public offering of a venerable investment bank draws near

LAST year Lazard, a 157-year-old boutique investment bank, came close to imploding. The reason was a protracted power-struggle between Michel David-Weill, the bank's chairman, and Bruce Wasserstein, a brash American dealmaker he hired in 2001 to revive the firm's then flagging fortunes. Mr Wasserstein himself made lots of expensive hires, but Lazard consequently had less money to distribute to its owners, including Mr David-Weill. A messy public row ensued.

Now the tension appears to be easing. On April 11th Lazard filed details of an impending initial public offering (IPO), valuing the bank at up to $2.7 billion—the biggest flotation of an investment bank since Goldman Sachs went public in 1999.

That looks like a straightforward victory for Mr Wasserstein. Mr David-Weill and some of Lazard's other owners had been fiercely opposed to a flotation. A compromise was reached last autumn whereby Mr David-Weill and his allies agreed to the IPO in exchange for reassurances that, should Mr Wasserstein fail to pull it off by the end of 2005, he would quit. The owners have also negotiated a $1.6 billion price for their 37% stake in the bank.

To pay for this, Lazard will use almost all the expected $730m in net IPO proceeds as well as a chunk of another $1 billion-plus raised by issuing other securities. And that is why Mr Wasserstein's victory might be more apparent than real: the IPO rather resembles a modestly leveraged buy-out.

On the face of it, Lazard's timing is good. The market for mergers and acquisitions (M&A) is booming after years in the doldrums. Lazard has benefited from the improved deal flow. In the first quarter of this year, it saw its M&A revenues jump by 64% over the same period last year. This should help sell the bank.

But look beyond the flotation, assuming it goes ahead. Lazard will have some $1.3 billion of debt on its books—unusual for a small investment bank that is heavily reliant on cyclical financial-advisory revenues. True, the bank's asset-management fees are more stable—but these provided just 38% of total revenues last year and the asset-management partners are not part of the flotation scheme.

By far the biggest worry is whether and how Lazard can retain the dealmakers who are at the heart of its success. Most—but not all—of Lazard's bankers have signed on to the deal. Last year a core of high-earning partners was vehemently opposed to the idea of a flotation, and only a few of them are thought to have changed their minds. While they are no longer actively opposing the IPO, they are not supporting it either, and the flotation prospectus is hazy on details about how Lazard thinks it can hang on to them in future.

To prevent a brain drain, Lazard has structured the deal so that a managing director who leaves the firm before the two-year anniversary of the flotation would have to wait eight years after the IPO to cash in his equity. Some think this may not be enough. Lazard's stated vow to cut its compensation costs from 74% to 57.5%—still above the Wall Street average of 50%—means that paying huge bonuses to retain talent may not be possible. And even a departing director who was poached by a competitor would get his cash eventually.

All this raises the question of why outside shareholders would want to get involved. Mr Wasserstein has little option but to complete the IPO. But such are the uncertainties around this strange flotation that

some observers are already wondering whether it is an opening move rather than an end game.

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Financing German companies

The loan factory

Apr 14th 2005 | FRANKFURT
From The Economist print edition

How financial mass-production could help Germany's artisans

HANS REICH, head of Kreditanstalt für Wiederaufbau (KfW),Germany's national development bank, has a recurring dream: an inexhaustible well from which the country's small and medium-size enterprises, collectively known as the *Mittelstand*, can draw loans at reasonable rates of interest. The savings banks used to be that magic source, but new capital rules and the loss of their state guarantee from July 15th this year have made them pickier about credit risk.

German banks have plenty to lend, but processing costs and wariness of smaller credits mean that they are all chasing bigger borrowers, with sales of €50m ($65m) or more. For a loan of around €300,000, a bank's processing cost is far more than the risk premium it can earn, says Mr Reich.

His solution is a *Kreditfabrik* (loan factory), for processing standardised loans cheaply on behalf of many banks. The banks would deal with customers, as now; the factory would do the back-office work.

The idea is not new. The *Länder*, or states, and co-operative banks would claim to have the basis for their own loan factories already; the savings banks also have a project, Modell K, that they say has already cut processing costs. However, the division of German banking into private-sector, public and co-operative banks hinders industry-wide collaboration. Meanwhile, rising numbers of small firms complain that they “hardly have access any more to credit and reasonable development capital”, said Mr Reich this week.

A survey of *Mittelstand* companies, by Creditreform, a commercial-debt advisory group, shows that a slight upward trend in expectations last year has been thoroughly squashed: forecasts of turnover, employment and profits have fallen. Even so, these companies still intend to invest, if they can only get credit.

Mr Reich hopes that a change in KfW's refinancing programme will help. Since April 1st banks that refinance *Mittelstand* loans through the development bank have been allowed to charge borrowers a risk-based rather than a flat interest rate. That may encourage more lending.

However, progress on the *Kreditfabrik* is slow. Even if it does come to fruition, it will not solve another acute problem facing the *Mittelstand*: lack of equity capital. In the 1960s, shareholders' equity accounted for 30% of German companies' balance sheets; now the ratio is only 17%. And 37% of the *Mittelstand* companies surveyed by Creditreform this year had less than 10% capital; last year's figure was 31.4%.

Venture capital and mezzanine finance—essentially, debt with equity-like features—are still rare in Germany. That is changing slowly. Last month Deutsche Bank, the country's biggest bank, and IKB Deutsche Industriebank, a specialist industrial lender, touted “equiNotes”, a mezzanine instrument for *Mittelstand* companies. These would be standardised enough to trade as securities. In July the Munich stock exchange will open a new segment, called M:access, for *Mittelstand* companies.

Neither innovation, though, will be much use to run-of-the-mill companies. M:access demands minimum capital of €2m, a website and an annual analysts' meeting. EquiNotes are aimed at companies with sales of at least €50m and an investment-grade rating. Most of the *Mittelstand* will have wait to for Mr Reich's loan factory to open for business.

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Turkey

On the trot?

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Economic dynamism overcomes regulatory slackness

LAST December's nod from the European Union towards Turkey's eventual membership may have been the long-awaited catalyst for foreign direct investment (FDI) in the country. This week Fortis, a Belgo-Dutch bancassurer with plans all around the Mediterranean, agreed to pay $1.3 billion for Disbank, Turkey's tenth-biggest bank—more than all the FDI in Turkey in 2003. The deal is only one of several under way. France's BNP, Italy's UniCredit and the Netherlands' Rabobank are all expected to own big stakes in Turkish institutions by the end of this year.

Disbank is acknowledged to be one of Turkey's sounder banks. Moody's, a rating agency, says it has “above average financial fundamentals for a Turkish financial institution”. It is part of the Dogan group, headed by Aydin Dogan, an Anatolian tycoon who made his first fortune dealing in Ford trucks in the 1970s.

Among other things, the group owns *Hurriyet* and *Milliyet*, two of Turkey's bestselling newspapers. In 2002, with a partner, it paid the government $1.2 billion for a majority stake in Petrol Ofisi, a fuel retailer. Petrol Ofisi announced a steep fall in profits this week. With its media properties facing fierce competition and Petrol Ofisi in need of further investment, the Dogan group will find good use for the cash from the bank sale.

The group owns only 89.3% of the bank; the rest is traded on the Istanbul Stock Exchange (ISE). In a rare example of even-handedness, Disbank's minority shareholders are to be offered the same deal as the Dogan group. Minority shareholders are generally given short shrift in Turkey, where most quoted companies are still controlled by their founding families: a single shareholder controls a majority of the votes at 45% of the companies listed on the ISE.

This week the Institute of International Finance, an association of financial institutions, published a report on Turkish corporate governance. Edward Baker, chief executive of Alliance Capital, who headed the group that prepared the report, said “protection of minority shareholders' rights is crucial to fostering investment... voluntary guidelines are insufficient to push corporate-governance practices to the extent needed” to attract investment. The report finds “little evidence to suggest compliance with CMB [Turkey's Capital Markets Board] principles by listed companies.”

Foreign investors will have to balance this against the continuing good news on Turkey's economy. This week the government reached agreement with the IMF on the terms of a three-year $10 billion loan—considered vital if high growth and low inflation are to persist. Jean-Paul Votron, the boss of Fortis, says it was this economic dynamism that attracted him to the country. Will others be similarly enticed?

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Economics focus

Life after debt

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From The Economist print edition

Stricter bankruptcy laws punish entrepreneurs as well as the merely profligate

BANKRUPTCY, it is generally agreed, is a very bad thing. No one wants to declare it or be caught on the wrong side of someone else doing so. America's Congress seems to concur: this week, it was preparing to tighten the country's relatively generous bankruptcy provisions. In European countries, which are less forgiving of bankrupts, there are moves in the other direction. In Britain, which relaxed its rules recently, there has been a sharp increase in the number of people declaring themselves broke. But does easy bankruptcy have its sunny side?

Economic theory says that making it easier to shrug off debts makes bankruptcy safer for borrowers, but increases the risk to creditors. The supply of credit shrinks: financial institutions, fearing more defaults, become less keen to lend at any given interest rate. Meanwhile, demand grows, because borrowers are more willing to take on even high interest payments. In consequence, interest rates—the price of credit—rise, though the total amount borrowed could rise or fall, depending on how sensitive borrowers are to interest rates.

Conversely, tougher bankruptcy provisions mean lower interest rates for those who never declare bankruptcy. Those who fear they might go bust may have to cut back their borrowing. Fine, you might think, the virtuous are rewarded, while the profligate must watch their step. But what if borrowers' assets are at risk not because they are shopping till they drop or backing lame racehorses, but because they are trying to start a business? Entrepreneurs often have to give personal guarantees on loans to their fledgling firms. More than a few aspiring, but assetless, corporate titans have been forced to get their seed capital from Mastercard and Visa. Make bankruptcy more costly, and you make entrepreneurship less attractive.

Of course, you also make creditors more willing to lend—and that is a help to people trying to get a firm off the ground. Only empirical research can determine whether, on balance, bankruptcy law helps or hurts entrepreneurs.

Fortunately, America provides a neat natural experiment. Although the bankruptcy code is written at the federal level, individual states set the type and value of the assets that may be shielded from creditors. The exemptions range from extremely generous (Texas) to downright miserly (Delaware). This has allowed Michelle White, of the University of California at San Diego, to study what happens when bankruptcy rules remain the same, but the cost to the borrower changes.

In one paper*, written with Jeremy Berkowitz of the University of Houston, she studies the effect of raising the “homestead exemption”, which shields a debtor's home from creditors, on small businesses. Some states set high maximum values (or no maximum at all) on the homes protected, while others offer little or no exemption. The paper found, unsurprisingly, that big exemptions made it harder for firms to borrow: after controlling for other variables, companies in states with unlimited exemptions were roughly 30% more likely to be denied credit than firms in the states with low exemptions.

Is that enough to stifle the entrepreneurial spirit? That depends on what worries entrepreneurs more: current interest rates, or the future possibility of losing their home. In another paper†, Ms White and another co-author, Wei Fan, examine empirical evidence from two census surveys to see how business ownership is affected by exemptions.

The answer, it turns out, is that higher homestead exemptions encourage it. Homeowners in high-

exemption states were 10% more likely to own a business than those in low-exemption states, and those in states with unlimited exemptions were 35% more likely to be in business for themselves. Moreover, ownership of unincorporated firms, which carries unlimited liability, was much more tightly linked to the exemption level than was the extent of corporate ownership. Clearly, the threat of losing your home—most Americans' biggest asset—matters.

Wheat and chaff

In theory, increasing entrepreneurship by slackening bankruptcy rules need not be unambiguously good. Easy bankruptcy might simply encourage the fellow who wants to sell ice to Eskimos, and reckons that, as long as he can stiff his creditors, he might as well give it a shot. In practice, this seems unlikely. James Schrager, a professor of entrepreneurship at the University of Chicago, points out that venture capitalists spend considerable time and expertise winnowing a few good business plans from vast mountains of chaff—and nonetheless see nine out of ten of their businesses fail. Given how hard it is to foretell which firms will succeed, bankruptcy rules seem more likely to sort entrepreneurs by optimism than by business acumen.

That said, Mr Schrager warns that generous exemptions might also attract unsavoury types. In his experience, most people who start businesses don't think about bankruptcy. Entrepreneurs tend to be wildly over-optimistic; if they were not, they would never get past their first crisis. Some of those making it a serious factor in their decision-making may be shady operators. If America's tighter law discourages such people, falling lending costs might make more credit available to legitimate businesses.

At the very least, American policymakers ought to think carefully about the trade-off they are about to make. In stricter Europe, studies show, attitudes to risk are much more conservative. If in pursuit of a few profligates America ends up punishing the risk-takers who drive its widely envied entrepreneurial culture, that will be a bad bargain indeed.

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* "Bankruptcy and Small Firms' Access to Credit", *Rand Journal of Economics*, Spring 2004

† "Personal Bankruptcy and the Level of Entrepreneurial Activity", *Journal of Law & Economics*, October 2003

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Marjorie Deane Internship

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Applications are invited for the 2005. This award, financed by the Marjorie Deane Foundation, is designed to provide work experience for a young would-be or junior journalist, who will spend three months of the summer at *The Economist*, writing about finance. Applicants should send a letter introducing themselves, with an original article of about 1,000 words intended for the Finance and economics section. Applications must reach us by May 3rd. They should be posted to The Business Affairs Editor (Deane internship), The Economist, 25 St James's Street, London SW1A 1HG, or e-mailed to deaneintern@economist.com

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Correction: Celtel

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In last week's Economics focus, we said that Celtel, a pan-sub-Saharan African mobile-phone company, was a subsidiary of Britain's Vodafone. It isn't. It has recently agreed to be bought by Mobile Telecommunications Company, of Kuwait. Sorry.

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Third-world medicine

Hale and healthy

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From The Economist print edition

Andy Berry, Orange Photography

A new way of developing drugs for neglected diseases of the poor world

THIS week, scientists from the Institute for OneWorld Health, the first not-for-profit pharmaceutical company in America, presented the results of a large clinical trial at the Third World Congress on Leishmaniasis in Palermo, Italy. Leishmaniasis is a parasitic infection transmitted by the bite of a sand fly. The trial shows that an antibiotic called paromomycin is effective for treating the most dangerous version of the disease, visceral leishmaniasis, which affects 1.5m people around the world and kills 200,000 of them every year. Those data are obviously important for medical reasons. But they are also important as a demonstration that the institute's novel approach to drug development is working.

About 90% of the planet's disease burden falls on the developing world. Yet only 3% of the research and development expenditure of the pharmaceutical industry is directed toward those ailments. The rest goes towards treating diseases of the rich. In 2000, Victoria Hale (pictured above), founded the institute to help tackle that discrepancy. She knew from her work as a scientist in the pharmaceutical and biotechnology industries, and subsequently as an official at America's Food and Drug Administration, that numerous promising drug-development projects—particularly for diseases of the poor—are dropped for lack of funding. She reasoned that there was a gap in the market, between academically inclined university departments and fully fledged pharmaceutical firms, for an organisation that would identify such orphans, get their owners to donate the intellectual property if they were still in patent, raise development funding from non-commercial sources, and arm-twist researchers to contribute their expertise to the development process *pro bono*.

So far, the donation side seems to have worked. In 2002 Celera Genomics gave the institute a promising compound for the treatment of Chagas disease, which infects 12m people in Latin America and is an important cause of heart failure in the region. Yale University has also licensed a potential drug for Chagas to the institute. And the University of California, Santa Barbara, gave it a compound intended for the treatment of schistosomiasis, which affects 200m people, mostly in sub-Saharan Africa. The compound the institute has pushed furthest, though, is paromomycin. In this case no donation was needed, as the drug's patent has expired. Indeed, it is currently used for the treatment of a variety of parasites. But it has never been properly road-tested for leishmaniasis.

Trials and tribulations

Visceral leishmaniasis occurs predominantly in Bangladesh, Brazil, India, Nepal and Sudan. Its symptoms include fever, weight loss, enlargement of the spleen and liver, and anaemia. Several drugs to treat it are available, but their usefulness is limited either because the parasites have evolved resistance to them, or because they are too expensive.

In the mid-1990s, the World Health Organisation (WHO) started testing an injectable form of paromomycin as a treatment for visceral leishmaniasis. Its researchers completed small-scale trials which demonstrated that the drug was safe for use against the disease and seemed to cure the infection. But development stalled at that point because the WHO was unable to find a sponsor for a large-scale trial that would have compared paromomycin with existing treatments.

In 2001, Dr Hale approached the WHO about taking over the trials. The WHO agreed, the Bill and Melinda Gates Foundation stumped up the money, and the institute teamed up with four health-care centres in the Indian state of Bihar in order to test the drug against amphotericin B, an established but expensive treatment.

The trial showed that the two drugs worked more or less equally well. In both cases, 99% of patients responded within four weeks—and though slightly fewer of those on paromomycin remained uninfected after six months, all those relapses proved treatable by other drugs. Given that a course of amphotericin B costs $120, while the institute reckons a course of paromomycin will come in at around $10, this seems a reasonable trade-off. The institute, supported by a further donation from the Gates foundation, plans to submit an application for regulatory approval to the Indian health ministry by the end of the year. If that is granted, the manufacturing will be done by Gland Pharma, a drug company based in Hyderabad.

Having shown its approach can work, the institute's next target is diarrhoea, which kills 2m people a year, most of them children, by dehydrating them. In this case, the Lehman Brothers Foundation is providing the money.

Diarrhoea is a symptom, rather than a disease. Indeed, it has eight common causes in the tropics (four bacteria, three viruses and a protozoan). Instead of scattering its efforts among these causes, the institute's researchers are sifting through orphan compounds that might attack dehydration directly, by stopping the secretion of water into the gut. Such a drug would augment oral rehydration therapy—a combination of salt and sugars mixed into water that is the standard regimen used in the developing world. Diarrhoea is hardly the most glamorous condition it is possible to work on. But if Dr Hale and her institute can find a treatment for it among other people's discards, they will truly have turned base metal into gold.

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Depression

Talk is cheap

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And surprisingly effective

FOR almost a century after Sigmund Freud pioneered psychoanalysis, “talk therapy” was the treatment of choice for many mental illnesses. Artists and writers lined up to lie down and be analysed, and the ideas of Freud, Jung, and other influential psychiatrists permeated the intellectual world. They also seeped into the popular consciousness, and still pop up today whenever someone talks of a subconscious desire, a Freudian slip, a death wish, or an Oedipal complex. But advances in neurology, and especially in pharmacology, have called such therapy into question. When psychological and emotional disturbances can be traced to faulty brain chemistry and corrected with a pill, the idea that sitting and talking can treat a problem such as clinical depression might seem outdated.

Robert DeRubeis of the University of Pennsylvania and his colleagues beg to differ, however. They have conducted the largest clinical trial ever designed to compare talk therapy with chemical antidepressants. The result, just published in *Archives of General Psychiatry*, is that talking works as well as pills do. Indeed, it works better, if you take into account the lower relapse rate.

The study looked at a relatively modern type of talk therapy, known as cognitive therapy, which tries to teach people how to change harmful thoughts and beliefs. Patients learn to recognise unrealistically negative thoughts when they occur, and are told how to replace them with more positive ones. It may sound too simplistic to work, but other studies have shown it can be used to treat anxiety, obsessive-compulsive disorder and eating disorders. Dr DeRubeis wondered just how effective it really was for depression.

In the study, 240 patients with moderate to severe depression were divided into three groups. One group was treated with cognitive therapy, a second with Paxil, an antidepressant drug, and members of the third group were given placebo pills. (Those in the second and third groups did not know whether their pills were placebos or not.) After 16 weeks of treatment, the results for those on cognitive therapy and drugs were identical. Some 58% had shown perceptible improvement. By contrast, only 25% of those on the placebo improved. That was encouraging. But the really surprising advantage of cognitive therapy is that it seems to keep working even after the therapy sessions are over. A year after treatments ended, only 31% of those who had received it had relapsed into their former state, while 76% of those who had been given antidepressants, and then been taken off them, had done so. Even patients who stayed on antidepressants for the intervening year did not do any better than those who had taken cognitive therapy and then quit.

If Dr DeRubeis's study can be replicated (an important “if” in a soft-edged discipline such as psychotherapy), it has implications for the way clinical depression should be approached in the future. One consideration, at least in America, where the study was done, is that many medical-insurance companies that are willing to pay for antidepressant drugs nevertheless refuse to pay for psychotherapy. A successful replication of the DeRubeis study ought to change that—not least because cost-benefit analysis shows that while cognitive therapy is more expensive than drug treatment to start with (since it involves extended one-to-one sessions with a highly paid specialist), it is cheaper in the long run because prescriptions do not have to be refilled indefinitely.

Which is not to say that cognitive therapy will suit everyone with depression. According to Dr DeRubeis, it is still likely that some patients will respond better to drugs than conversation. The next breakthrough might be a way of working out in advance who fits which treatment.

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Bacteriology

Screening for screams

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A rapid method of identifying dangerous bacteria

Get article background

AT THE moment, identifying bacteria is a time-consuming business that involves taking a sample, adding nutrients, incubating the result and waiting until there is a large enough colony to test chemically. This can take hours. It would help patients (and, if it came to a terrorist attack involving bacteria, it would help the authorities, too) if this process could be speeded up. According to Laszlo Kish and Maria King, of Texas A&M University, it can be. Using a combination of virology and, surprisingly, microelectronics, they have devised a technique for identifying small quantities of bacteria in minutes.

The virological part of the test involves bacteriophages. Phages are viruses that attack bacteria with the same verve that some other viral species attack people. But phages are choosy about their prey. Most species can parasitise only a single sort of bacterium. In the past, bacteria-detection researchers have tried to exploit this specificity using conventional techniques: culturing samples, infecting them, and then testing for by-products of bacterial death. Though the results are often clearer than for ordinary assays, they still take a long time to arrive—too long for some patients.

That is where the second prong of Dr Kish's and Dr King's research kicks in. They realised that you do not have to wait until the bacteria die before you can tell whether they have been infected. Phages start their attack by injecting DNA into their victims. When this happens, there is a short-lived flow of ions (electrically charged atoms and molecules) out of the bacterium. This phenomenon, whimsically described as the bacterium “bleeding” or “screaming”, is the first proof that the phage has found its target. Detect the scream and you know what type of bacterium you are dealing with.

The problem is “hearing” the scream. The signal created by the liberated ions would be hard enough to detect if all those ions were flowing in the same direction, and thus producing an electric current. But since they move off at random, even that minuscule current quickly vanishes.

The solution Dr Kish and Dr King have come up with is a device that can detect activity over a small enough distance for the current not to have vanished. It is called, with that delight in creating forced acronyms that plagues many branches of science, “sensing of phage-triggered ion cascade”, or SEPTIC. It consists of a so-called nano-well into which the sample is decanted and which contains a capacitor with a gap of just 150 nanometres (billionths of a metre) between its plates.

A capacitor is a routine electronic component, and capacitors of such minute dimensions are found by the zillion in computer chips. They consist of two electrodes known, by historical analogy with the structure of their ancient macroscopic ancestors, as plates. The plates are separated by an insulator, and if a positive charge is put on one plate and a negative charge on the other, the whole arrangement can act as a temporary electrical store.

If a drop of liquid containing the phage-infected sample is put between the plates, though, it will change the properties of the capacitor by changing the voltage between the plates. Any ions released into the liquid will change things further. And such changes can be detected in the electrical circuitry attached to the capacitor.

Initial tests of SEPTIC on that workhorse of all bacteriologists, *E. coli*, show that it works, and the team seems confident that similar results will be found with anthrax, plague, botulism and shigella. So next time an envelope containing white powder turns up in the post room, you will not have to wait long to

find out whether it is dangerous. Better still, doctors will be sure from almost the outset that they are giving the correct antibiotic to infected patients. That should greatly improve the medicine's usefulness.

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Anthropology

Marching backwards

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Not all hunter-gatherers are remnants of the Stone Age

THE Whig interpretation of history, to which this newspaper largely subscribes, is one of steady progress. Hunters become farmers, farmers manufacturers, and manufacturers drift into doing something vaguely post-industrial in the service sector. One consequence is the assumption by most anthropologists that the few remaining groups of hunter-gatherers left on the planet practise a way of life that is, in the non-pejorative sense of the word, primitive. In other words, it is an uninterrupted descendant of the way that people lived before the first person asked himself, “I wonder what would happen if, instead of eating all these seeds, I stuck some of them back in the ground?”

A study by Hiroki Oota and Brigitte Pakendorf, of the Max Planck Institute for Evolutionary Anthropology in Leipzig, Germany, and their colleagues, suggests, however, that this may not always be so. Dr Oota and Dr Pakendorf believe that the Mlabri, a group of hunter-gatherers who live in northern Thailand, came into existence in the relatively recent past, and are descended from farmers.

The researchers draw their conclusion from the Mlabri's DNA. Most DNA undergoes regular mixing, as the chromosomes from an individual's mother and father exchange material during the formation of eggs and sperm. But there are small pieces of DNA that are not involved in these exchanges. The DNA in sub-cellular structures known as mitochondria is passed intact from mother to daughter. (It is passed to sons, too, but they do not pass it to their own children.) Similarly, part of the Y chromosome (which carries the genes that determine maleness) is passed intact from fathers to sons, but not to daughters.

All this means that mitochondrial DNA and non-mixing Y-chromosome DNA change only as a result of mutation, and such mutations are infrequent. So the number of different sorts of mitochondrial and non-mixing Y-chromosome DNA in a population is an indicator of how many men and women there were in the group that founded a population, and how long ago that founding population existed. In the case of the Mlabri, the diversity of the DNA in question is so low (indeed, in the case of mitochondrial DNA it is zero) that the researchers' calculations suggest the group is between 500 and 800 years old and that it was founded by between three and six individuals.

That does not, of course, prove that the Mlabri's ancestors were farmers. But two other things suggest they were. One is that the DNA the researchers studied is similar to that of neighbouring hill tribes, all of whom are farmers and have been since before the Mlabri came into existence. That contrasts with several other well-studied groups of hunter-gatherers, whose DNA bears little resemblance to that of their agricultural neighbours. The second clue is that the Mlabri language resembles that of neighbouring farmers which, again, contrasts with what is observed in other hunter-gatherers. And there is one further, suggestive fact. The neighbouring farmers tell a story that, several hundred years ago, two children were expelled from one of their villages and fled into the forest. The children, so the story goes, were the ancestors of the Mlabri. Unable to farm, they took to hunting. And their descendants have carried on doing so to this day.

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African contemporary art

Spirits from the tree of life

Apr 14th 2005 | HOUSTON
From The Economist print edition

Jean Pigozzi's collection of modern African art is usually kept stored away in a Swiss warehouse. A rare public exhibition shows that it is a feast for the eyes

A VOLUPTUOUS woman reclines on a sofa. Countless artists have painted this scene. But the canvases of a little-known Kenyan painter, Richard Onyango, chronicling his obsession with a buxom Indian femme fatale, are equally romantic; what distinguishes them from reclining nudes, by Modigliani and Matisse, say, is the rage. The tension in his works—between man and woman, black and white, African culture and western consumerism, tradition and technology—characterise not only Mr Onyango's vision but most of the work in a magnificent show now on in Houston.

In a year when Africa is the theme of a number of exhibitions and festivals in Britain, America and continental Europe, “African Art Now” stands out for its freshness and humour, and for the diligence and sense of purpose of its artists.

Amassed over the past decade by Jean Pigozzi—a close friend of Charles Saatchi and heir to a French motor fortune—this little-known collection is a revelation. Instead of trading in clichés of primitivism, the Houston show brings together a sprawling, sophisticated, largely urban selection of works from a continent better known for poverty and hardship. It proves just how much cities like Kinshasa—where many of the artists live—are centres of creativity as well as chaos. The curators' aim was “to emphasise contrast and a sense of exuberance, rather than national or ethnic difference,” says Alison de Lima Greene, who, together with Mr Pigozzi's adviser, André Magnin, selected works by 33 artists from 14 countries.

Visitors pass towering, totemic grave markers made by a Malagasy artist, Efiaimbelo; fantastic scenes carved on top of the giant funerary posts mark the life of the deceased. The next room displays machines inspired by science fiction and made from recycled industrial materials by a young Kinshasa artist, Rigobert Nimi, who turned to making these art “toys” when he failed to find work as an engineer.

Only a handful of the artists here have major international reputations. Two Malien photographers, Seydou Keïta and Malick Sidibe, have become stars of African photography for their candid portraits that capture the essence of their subjects. Chéri Samba, a Kinshasa pop painter, had a major museum show of his technicolour paintings in Paris last year. The visionary drawings of Frédéric Bruly Bouabré, from

Côte d'Ivoire, lay out the history of the world in a pan-African language of pictograms that show the continent to have been far less isolated than history usually recounts. His work was shown at Documenta in Kassel in 2002. Bodys Isek Kingelez, whose sculptures were also seen at Documenta, models massive futuristic cityscapes that transform his rambunctious native city, Kinshasa, into a neon-lit utopia, as if to ask, “Why can't Africa also have big cities with bright lights?”

Despite their differences, all these artists—the famous as well as the less well-known—share an ability to transform humble materials and artisanal traditions into work that expresses an original sensibility. Seni Awa Camara, from Senegal, was raised by her mother to be a traditional ceramic artist. Modelling and firing clay in her front yard, she surrounds herself with visceral, expressive sculptures that tell stories that come to her in dreams in what she calls her “theatre without a stage”. One particularly striking piece shows demons clinging to a pregnant mother and recalls the work of Louise Bourgeois, which she has never seen.

Calixte Dakpogan of Benin comes from a family of blacksmiths and makes ingenious, often humorous, masks out of salvaged scrap, including broken records and bumpers. “I work with recovered materials since they are burdened with time and transformed by usage, conferring vitality on my sculptures,” he says. His cousin Romuald Hazoumé uses scavenged objects—particularly the mask-like forms of empty gas containers—to make a political statement about how Africa wastes its natural resources while ignoring its human ones.

The artists' concerns—celebrating life and death, creating a better world, fantasising about technology, protesting against injustice—are hardly unique to Africa. What is particular is how vibrantly these artists communicate with the viewer. They see themselves as being an integral part of their communities and their art as part of a conversation. They want their work to elicit a response, something that is rarely seen today in western art.

This energy enthralled Mr Pigozzi when he saw an exhibition called “Magiciens de la Terre” in Paris in 1989. Immediately afterwards, he commissioned Mr Magnin, who had curated the African section of that show, to begin putting together a collection of work by black, self-taught artists who live in Africa. As Mr Magnin says: “Anyone with money can buy a Warhol. Pigozzi wanted a collection that was unique in the world.”

Mr Pigozzi has been accused of promoting an exoticising vision of pure African art, made by artists untainted by western influences. Love him or loathe him, he has assembled an extraordinary visual resource that would have been impossible to see otherwise. Most of the artists he collects do not have dealers, let alone museum displays; finding their work at all requires both drive and determination.

His collection now numbers more than 6,000 works by 93 artists from 20 countries in sub-Saharan Africa. Most of the time it is packed away in a Geneva warehouse, although Mr Pigozzi hopes one day to build a museum in its honour. His immediate mission is to open the eyes of the world to contemporary African art. “I want to show people that Africa, with all its problems of AIDS, corruption, wars, famine, has artists who still manage to produce incredibly innovative art of the same quality as that being made in London or New York.”

“African Art Now: Masterpieces from the Jean Pigozzi Collection” is at the Museum of Fine Arts, Houston, until June 5th, and will be displayed at the Smithsonian's National Museum of African Art, Washington, DC, from November 16th 2005 until February 26th 2006.

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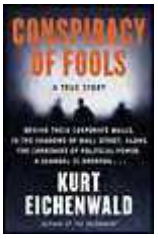
Corporate America

The fall of Enron

Apr 14th 2005
From The Economist print edition

Get article background

Conspiracy of Fools: A True Story
By Kurt Eichenwald



Broadway Books; 768 pages; $26

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ENRON has become a byword for all that was wrong with American business at the start of this century. The sudden, scandalous collapse in late 2001 of what had been one of America's most celebrated companies, following allegations of unprecedented accounting fraud, generated headlines around the world, inspired a far-reaching overhaul of the regulations governing business, and is likely to result in many of the firm's former top executives spending many years in jail.

Kurt Eichenwald has written a gripping account of Enron's rise and fall. The author, a *New York Times* reporter, has read thousands of pages of documents and interviewed most of the participants to produce a story that feels authentically insiderish and alive with dramatic tension throughout its 768 pages—even those dealing with the finer points of accounting.

Mr Eichenwald's previous book, “The Informant”, was widely likened to a work by John Grisham. The same is true of “Conspiracy of Fools”, which reads like a good airport novel and, it must be admitted, is to some (as yet unknowable) extent a work of fiction. The book pretends to be a first-hand account when, in fact, many of the reported conversations (“Ken, good to see you,” Murdoch said. Lay nodded. “Thank you, Rupert. How have you been?”) are the author's best guess, based on sources that may or may not be reliable.

Most of the characters “quoted” by Mr Eichenwald are either self-confessed crooks co-operating with prosecutors in the hope of a reduced sentence, or facing trial and desperate to establish their innocence. So the accuracy of these quotes cannot be taken entirely for granted. On the other hand, as Bob Woodward's accounts of goings-on in the White House have demonstrated, the faux first-hand account method may turn out to be the best way of getting an approximation of the truth.

If Mr Eichenwald is broadly correct, it will make depressing reading for the prosecutors who have accused Enron's former top bosses, Kenneth Lay and Jeffrey Skilling, of being the brains behind this massive fraud. Mr Eichenwald's criminal mastermind is Andrew Fastow, Enron's chief financial officer, who has already admitted numerous offences and is likely to be the main witness against Messrs Lay and Skilling. Mr Eichenwald describes how Mr Fastow and his henchmen, principally Michael Kopper, created a series of investment vehicles—such as LJM, the Raptors and Chewco—that bought assets from Enron, supposedly to reduce the firm's risk but in reality to generate huge fees and profits for Mr Fastow and his chums. Mr Eichenwald leaves the reader with the strong impression that Mr Fastow lacked even a basic understanding of the risks involved in this off-balance-sheet strategy.

As for Mr Lay, he seems to have known presidents George Bush senior and junior far better than he knew what was going on within Enron. Right to the end, he is described as failing to grasp the severity of the problems facing the company he built. Mr Skilling, too, seems entirely unaware of the crimes being orchestrated just below him in the corporate hierarchy—drinking too much, and swinging manically between jovial over-optimism and deep depression. His decision to quit suddenly as Enron's chief executive soon after taking the job (and just weeks before the company's problems started to become clear) comes across as entirely in character and unrelated to the fraud.

Mr Eichenwald identifies few true heroes, other than Carl Bass, an accountant at Arthur Andersen, who consistently questioned Enron's creative bean-counting, Vince Kaminsky, a financial expert within Enron

who quickly suspected that Mr Fastow was up to no good, and Jordan Mintz, who reached the same conclusion from a legal perspective. Even so, on a surprising number of occasions, Mr Fastow's scheming comes within a whisker of being uncovered long before it reached its ultimately disastrous scale.

Perhaps Messrs Lay and Skilling will be convicted of fraud. But, if Mr Eichenwald's account is right, that would be a miscarriage of justice: their main fault was that, for ordinary innocent reasons, they put too much trust in their closest lieutenants. Any boss reading this sorry tale may conclude: there, but for the grace of God, go I.

By Kurt Eichenwald.
Broadway Books; 768 pages; $26

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Anti-Americanism in France

Mutual contempt

Apr 14th 2005
From The Economist print edition

WHEN in doubt, bash America. This national reflex is an elementary rule of French politics. Two years after the two countries fell out over the war in Iraq, and even as relations are warming again, anti-Americanism is a useful prop for politicians in need. Consider the campaign ahead of France's May referendum on the draft European constitution. On the left, the Socialist Party selected the following billboard slogan: “Yes to a strong Europe facing the USA”. On the right, a deputy from President Jacques Chirac's governing party quipped that a good yes line might be: “A no vote to Europe is a yes to Bush.”

No other political class in Europe turns so readily, and unapologetically, to anti-Americanism. The tradition long pre-dates the Iraq war; General de Gaulle's withdrawal of France from NATO's military command in 1966 is an important historic symbol. The great novelty of Philippe Roger's meticulously researched book, first published in 2002 and now translated into English, is how much further back French anti-Americanism reaches.

Mr Roger traces it to the second half of the 18th century, when a circle of naturalists linked to the Enlightenment thinkers—French botanists, zoologists and anthropologists—returned from the new world with little but scorn. The species were small. The people were backward. The land was marshy. One of them, Cornelius de Pauw, wrote a chapter entitled “On the Americans' Moronic Spirit” and judged them “deprived of both intelligence and perfectibility”. Voltaire wondered if one should not “marvel that there are flies in America”.

The subsequent sharing of revolutionary ideas and heroes in the 1770s and 1780s, argues Mr Roger, was short-lived. Over ensuing decades, French visitors laid the foundations for contemporary anti-Americanism. Cultural and aesthetic disdain took over. Americans were mindless, mediocre, soulless, vulgar, uncultivated, philistine, individualistic. “Thirty-two religions and only one dish to eat,” declared Talleyrand. Stendhal's character Lucien Leuwen dismisses America as “the triumph of stupid, egotistic mediocrity”.

Traditional explanations for French anti-Americanism have leant on the rise of America as a military and economic power and the spread of Communist ideology among French intellectuals. The 20th-century version was certainly virulent, as Mr Roger shows. Gratitude for the American liberation in 1944 was not widespread in intellectual circles. “Our fate was not decided in Normandy or in Belgium,” wrote Sartre, “but in the USSR.” French writers railed about American materialism, consumerism and standardisation: the “ostentatious refrigerator”, the Hollywood movies sent to “corrupt and degrade the soul”. Yet this hostility, as Mr Roger demonstrates, was built on sentiment already in place by the 1930s.

What lies behind this? Here, Mr Roger is less compelling. He rejects the theory of rivalry over universalist revolutionary models, arguing that the French never regarded the American version to be a match for their own; they considered the new-world version to be insufficiently revolutionary. And, of course, France had enduring faith in the superiority of its civilisation. Yet such dismissiveness was in itself the product of contest. As, in many ways, was a further reason Mr Roger offers: the shock of American belligerence as revealed by the 1898 Spanish-American war.

The American Enemy: The History of French Anti-Americanism
By Philippe Roger

University of Chicago Press; 536 pages; $35 and £24.50

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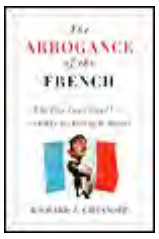
Amazon.co.uk

The Arrogance of the French: Why They Can't Stand Us--and Why the Feeling is Mutual
By Richard Z. Chesnoff



Sentinel; 187 pages; $23.95

Buy it at
Amazon.com
Amazon.co.uk

If there is a weakness in this otherwise fascinating, scholarly and elegant book, it is that Mr Roger turns everything into supporting evidence. He sees anti-Americanism at every turn. So the French passion for jazz, for instance, is not an embrace of America but the rejection of it, since jazz is a movement born of counter-culture.

But it would be churlish to dwell on the few flaws in what has quite rightly become, like Jean-François Revel's “L'Obsession Anti-Américaine”, a bible for students of anti-Americanism. In contrast, Richard Chesnoff, a journalist, has written a dreadful little book, a tirade masquerading as serious analysis, riddled with factual errors. Mr Chesnoff oozes contempt for the French: for their “myopic behaviour and cantankerous character”. Having ranted about French hypocrisy, ingratitude and the difficulty of getting builders to work on his house and pool in the south of France, Mr Chesnoff then asks the book's most searching question: “So, you may ask, why in the world do [I] live there?” With a certain diffidence, he offers his answer: “I personally find the quality of my day-to-day life in France far superior to anything that I could afford back home in the USA.” And with that own goal, he successfully undermines pretty much everything that has come before.

The American Enemy: The History of French Anti-Americanism.
By Philippe Roger.
University of Chicago Press; 536 pages; $35 and £24.50

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Billie Holiday

Portrait of a lady

Apr 14th 2005
From The Economist print edition

WHEN Billie Holiday died in 1959, a Harlem graffito summed up her demise with stark simplicity: “Lady Day at forty-four/Couldn't make it anymore.” Since then, a host of biographers have tried to make sense of the turbulent, troubled life of a great jazz artist who seemed bent on self-destruction—from drugs, abusive partners, her own wilfulness. But the mystery of her personality remains. As one of her accompanists put it, “Lady could look like any of her pictures and on every one she looked different.”

The great virtue of Julia Blackburn's biography is her acceptance of that multiplicity. Beginning with an invaluable trove of interviews with people who had known the singer at every stage of her life, Ms Blackburn quickly gave up the idea of imposing any strict order. Instead she has created a documentary, “in which people are free to tell their own stories about Billie, and it doesn't matter if the stories don't fit together, or even if sometimes they seem to be talking about a completely different woman.”

With Billie
By Julia Blackburn

Pantheon; 368 pages; $25.
Jonathan Cape; £17.99

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Though this might seem a recipe for chaos, Ms Blackburn has produced a marvellous web of characters and tales, full of vigour and colour, in which Billie Holiday emerges in all her independent, awkward, variegated glory. Born to a pair of unmarried teenagers, she was brought up amid pimps, hustlers and casual prostitution. Sent to reform school and later raped by a neighbour, she grew tough but resilient; her passion for singing appeared by her early teens. A friend said, “She'd sing like it hurt her, like it did her good to sing.”

Honest and uncompromising, by turns shy and vivacious—“like sunshine,” someone put it—all those qualities came through in her performances. As musicians marvelled at her talent—“you could go anywhere and she'd be there, man. Perfect time and perfect diction”—audiences responded to her sincerity. By the late 1930s she was a star.

But Ms Blackburn's informants agree that around 1942 something changed. Whereas, like most musicians, Billie Holiday had partaken enthusiastically of gin and marijuana, she began to switch to heroin and cocaine, habits that coincided with a taste for abusive men. Though she never apologised for her dangerous predilections, her life became increasingly harrowing, with a spell in prison, the constant threat of arrest, and declining vocal powers, attended by a sequence of sleazy, violent partners.

Her friends struggled to make sense of this debacle, suggesting a masochism in Lady Day's nature at war with her fundamental pride and decency. For her part, Ms Blackburn's editorial commentary highlights the racist attitudes and practices which black Americans routinely suffered, and which certainly played a part in Billie Holiday's tragic denouement.

Despite the travails of her last years, the singer still somehow refuses to appear a victim. Looking back, she insisted that everything she did was “my own damn business”, and that mysterious, perverse blend of character and genius produced the peerless body of work thankfully preserved in her recordings. Though finally it is in her art that we can most truly be “with Billie”, Ms Blackburn's portrait of a unique artist is moving, revealing and quite unforgettable.

By Julia Blackburn.
Pantheon; 368 pages; $25.
Jonathan Cape; £17.99

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The Middle East

Stentorian guard

Apr 14th 2005
From The Economist print edition

“THE fads of the 1990s—the clash of civilisations and the epistemological jungle of the debate on Orientalism—were but the latest in a long line of such aberrant idealist and unanchored elucubrations.” Thus speaks the stern, scholarly voice of Fred Halliday, professor of international relations at the London School of Economics, as he dismisses attempts to fit the international relations of the Middle East into easy, fashionable theories. He has no patience, either, with musings on the Arab psyche let alone facile hopes for a new world order or a democratic peace.

In his new book (the fourth in a series by different authors aimed at those with professional or academic interest in the Middle East), Mr Halliday offers an authoritative analysis of the armed conflict, social upheaval and political economics that formed the background to the attack on America in 2001 and the invasion of Iraq nearly two years later.

The Middle East—the Arab world plus Iran, Israel and Turkey—is a complex mosaic of discrete but increasingly intersecting conflicts and alliances. Most of its problems, he argues, start within individual states. After the cold war, these tensions, both in and between states, led to a growing meshing of regional crises, which led, in turn, to the conflict between Islamist militancy and the west—now called international terrorism. The seeds of this, he contends, lie not in any generalised, vapid concepts about Islam, but in concrete political and socio-economic situations that the outside world, in particular the west, complicates by trying to exploit.

The Middle East in International Relations: Power, Politics and Ideology
By Fred Halliday

Cambridge University Press; 374 pages; $65 (hardback), $21.99 (paperback)
Cambridge University Press; 374 pages; £40 (hardback), £16.99 (paperback)

Buy it at
Amazon.com
Amazon.co.uk

External causes play their part in determining the politics of the region, but a part only. Mr Halliday steers an informed path between the myth of pervasive external control, trumpeted in fundamentalist rhetoric and anti-imperialist literature, and the illusion of a ring-fenced Middle Eastern independence. He looks at what affects the region's relationships with the outside world, but always within the framework of what forms Middle Eastern society. He notes that the Arab states themselves fall short in all four of the areas that, whatever the outside constraints, should allow them freedom of choice: the quality of their leadership; the quality of their education; the participation of women in public life; and the openness of their press and publications.

Although dismissive of most “isms”, he analyses two of them: nationalism and religious fundamentalism, Judaic as well as Islamic. While recognising the concept of a struggling Muslim community or *umma* that is oppressed by the generic foes of Islam, he finds such simplistic ideas inadequate. He demonstrates that while religion influences and provides a language for the international relations of the Middle East, it does not determine them. “There is no such thing as the international relations of Islam,” he insists in angry italics.

Mr Halliday traces in detail the transnational political violence that reached a climax on September 11th 2001. Much of his book had, in fact, been written before the World Trade Centre was attacked, and though he bows to the enormous implications of this event, he maintains that it would be preposterous to argue that the domestic policies, state structures and ideologies of the Middle East were transformed by it—although American thinking may have been. The professor is at his sternest when he points to the frequent misuse of the term “terrorism”, employed routinely by politicians and others “as a coded means of dismissing the validity of a political cause.”

In analysing the region's long history of turbulent relationships, Mr Halliday laments the fact that history is so often allowed to provide an excuse for present conflict, prejudice and bad behaviour. Nothing, he argues, is preordained. If reason were only to prevail, then “the past could provide not a prison but an exit, an explanation, rather than a historical legitimation.” If only, indeed.

By Fred Halliday.
Cambridge University Press; 374 pages; $65 (hardback), $21.99 (paperback)

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Short stories

Landscape of memory

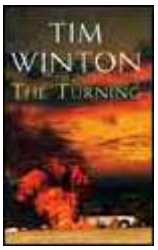
Apr 14th 2005
From The Economist print edition

TIM WINTON'S latest offering is a thrilling bundle of contradictions: a novel masquerading as a collection of short stories, an optimistic wallow in the doldrums of middle age. Full of violence and despair, it is also tender and poetic.

The 17 stories span several decades in the lives of a handful of characters in a small working-class town on the coast of western Australia that Mr Winton calls Angelus. Each of the stories is offered as a sort of snapshot whose position in the bigger picture only emerges slowly.

Several of them follow Vic, a policeman's son, from his early childhood to a near-suicidal midlife crisis. As a boy he looks on uncomprehendingly as his father slips into alcoholism: “He just disappeared by degrees before our eyes, subsiding into a secret disillusionment I never understood, hiding the drink.” Vic becomes a successful lawyer, though by his 40s he is in a deep funk and barely on speaking terms with his wife. “I suppose the sources of obsession are at once mundane and mysterious,” she muses in a tolerant moment.

The Turning
By Tim Winton



Picador; 317 pages; £16.99. To be published in America by Scribner in September

Buy it at
Amazon.co.uk

For its combination of the mundane and the mysterious, the outstanding piece in the collection is the title story, about a bitter woman named Raelene, who is regularly raped and beaten senseless by her fisherman husband, but who looks for God between assaults.

What makes all this gloominess palatable is Mr Winton's prose. Anyone who has read his prize-winning 2002 novel “Dirt Music” will know that landscape is for him a crucial dramatic device. The crushing disappointments and banality of life are relieved by glimpses of stark natural beauty. Mr Winton's language is unpretentious, and all the more stirring for it. Brief descriptions of the sky, land and sea provide a sudden sense of enlargement and universality; in those moments his characters and his readers draw breath. Sometimes all it takes is a gesture in that direction, as when Vic revisits Angelus after years of living in Perth. “My mind was elsewhere, travelling in loops and ellipses away from middle age on the all-night sound of the moving tide.” Enough to make first-time readers seek out Mr Winton's earlier work and old hands re-read him all over again.

By Tim Winton.
Picador; 317 pages; £16.99. To be published in America by Scribner in September

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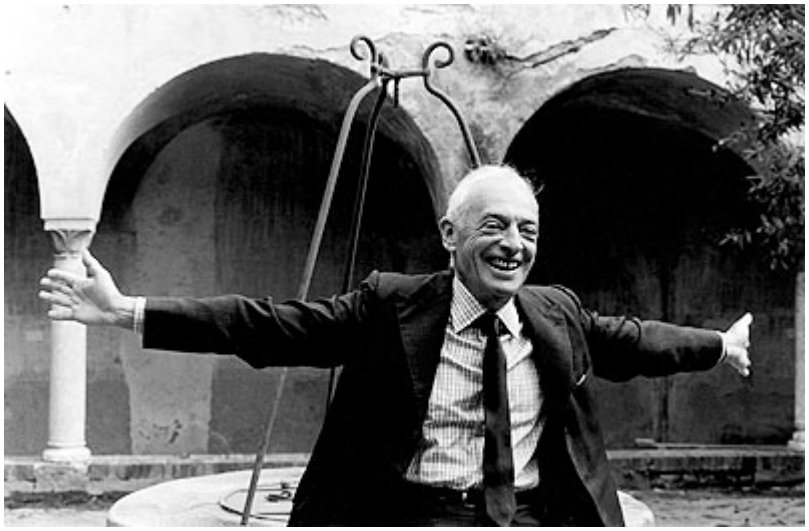
Obituary

Saul Bellow

Apr 14th 2005
From The Economist print edition

Magnum



Saul Bellow, an American novelist, died on April 5th, aged 89

IN FORMAL pose, he was always fastidious. Long before Tom Wolfe, Saul Bellow's trouser creases were blade-sharp, his fingernails sheened, the brim of his fedora tipped just so. All of which was surprisingly fussy for a writer of such ebullient and Olympian reputation. Only when he broke into a grin did you realise that Mr Bellow was no mere dandy.

He did not speak so much as spill with words: colloquial and mandarin, lofty, streetwise and intimate, all at once. “Humboldt's Gift”, the 1975 novel that won Mr Bellow a Pulitzer prize and the Nobel prize for literature, began thus:

> He was a wonderful talker, a non-stop monologuist and improvisator, a champion detractor. To be loused up by Humboldt was really a kind of privilege. It was like being the subject of a two-nosed portrait by Picasso, or an eviscerated chicken by Soutine.

Ten years before Mr Bellow was born, Henry James returned to New York and heard “the hard glitter of Israel” in the street-chatter of the Lower East Side. He was revolted at having “to share the sanctity of his American consciousness, the intimacy of his American patriotism with the inconceivable alien.” Mr Bellow never pussyfooted about the sanctity of English; for him, the multiple ore of immigrant voices was there to be fired into a fiercer linguistic alloy. As Philip Roth wrote, his language alone closed the gap between Thomas Mann and Damon Runyon.

Character, rather than plot, animated Mr Bellow's novels and short stories. He disagreed with Virginia Woolf, who believed that, in the modern novel, character was dead. His works were dominated by “noticers” (hungry observers of the life around them), dreamers, seekers, men of the mind, not unlike Mr Bellow himself, who had grown up poor and were impatient to get out into the world.

Round them, beautifully chronicled, were the “daily monkeyshines”, as well as “the cheapies, the stingies, the hypochondriacs, the family bores”. Mr Bellow's heroes lived in a world of cranks, crooks and wide boys, about whom warnings were constantly issued by fearsome grandmothers. Yet they were filled with nobility of spirit and moral purpose. “What did Danton lose his head for,” asks Augie of his brother

Simon in “The Adventures of Augie March”, “or why was there a Napoleon, if it wasn't to make a nobility of us all?” Neither of them amounted to much in the end, but the point of their lives was the quest. No one ever promised there would be gold at the end of their rainbows.

Robert Penn Warren said of “Augie March”, which came out in 1953, that “from now on any discussion of fiction in America in our time will have to take account of it.” Steering clear of fads and fashions, Mr Bellow made his mark by revivifying realism, even though he wrote mostly from the viewpoint of impression and memory rather than contemporaneous action. Almost single-handedly, he extended the life of the novel, holding its neck, another critic ventured, “from the blade of the postmodern”.

Like Dickens, Mr Bellow made a city his own: “clumsy, tender, stinking Chicago, dumped on its ancient lake bottom.” Living in the Russian Baths district in “Humboldt's Gift” are “aged working stiffs, lone Ukrainian grandfathers, retired car-line employees, a pastry cook famous for his icings who had to quit because his hands became arthritic.” “Chicago was a place that loved irregular people,” Mr Bellow would say later.

The spring of words

He was born in 1915, the last of Abraham Belo's four children and the only one born in the New World. The family had come originally from Russia, via Quebec, with little Saul (then Solomon), smuggled across the American border. He learned both Hebrew and Yiddish, and his mother wanted him to be a Talmudic scholar or a rabbi. Often ill, he began to devour books—the Old Testament, Shakespeare, the great 19th-century Russians. This may be another reason why so many of his heroes came wrapped in a sense of their own mortality. Steering clear of Northwestern University's tweedy English department, he graduated in 1937 in anthropology and sociology and later went to work for the Encyclopedia Britannica. He moved to New York and began writing, at first with little success. Only when he joined the merchant marine did he complete “Dangling Man”, about a Chicagoan waiting to be drafted.

By the time “Augie” made his name, Mr Bellow was 38. Other great novels followed. “Henderson the Rain King”, about an American millionaire who travels to Africa, had an even more ambitious canvas. “Humboldt's Gift” so impressed Samuel Beckett that it spurred him into arranging a meeting. He and Bellow shared a drink at the Pont Royal in Paris, but both men were shy and the encounter was awkward.

With success came a stern commitment to writing that contributed to Mr Bellow's four divorces. Term-time found him in Boston and Chicago, where he taught the European novel; summers took him to Vermont, where he lay in the bath and studied the stars through a skylight. In between he travelled—to Mexico, France and Israel—finding food for the business of writing.

Towards the end, the mortality that had lurked at the edges of the early novels moved to the fore. Mr Bellow's writing slowed, but the spring of words never failed him. Presented with a ridiculous dessert in a restaurant one night shortly before his last child was born, the 84-year-old Nobel laureate contemplated a circle of perfectly measured blobs of fruit coulis. “Ah,” he remarked, impishly and instantly, “Euclidian pimples!”

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Overview

Apr 14th 2005
From The Economist print edition

Oil prices retreated to a seven-week low. The price of American light crude closed on April 13th just above $50 a barrel. The decline followed a report by the International Energy Agency showing further evidence of a slowdown in the growth of global demand for oil. The *Oil Market Report* said that the risks to demand were “for the first time in two years, edging towards the downside”.

In **America**, the trade deficit in goods and services widened from a revised $58.5 billion in January to a record $61.0 billion in February—up by more than $15 billion from a year before. The politically sensitive goods deficit with China deteriorated from $8.3 billion in February 2004 to $13.9 billion. Higher oil prices helped push imports of goods and services up by 1.6% on January to reach a new high of $161.5 billion. Exports remained virtually unchanged at $100.5 billion.

American retail sales in March were weaker than expected, rising in value by 0.3% compared with February. Excluding cars, they increased by just 0.1%.

The **Japanese** current-account surplus unexpectedly rose, by 10%, in February compared with January. Exports of goods fell, but there was a big rise in investment income.

In **France**, industrial output fell unexpectedly in February as manufacturers wilted under pressure from the strong euro and high oil prices. Industrial production declined by 0.5% compared with January. Consumer prices rose by 1.9% in the year to March, up from 1.6% in February.

In **Italy**, industrial production was also weak, edging up in February by just 0.1% on January, when output was flat according to revised figures. The small gain was the first increase since September 2004.

In **Britain**, the prices of materials and fuels purchased by manufacturers rose by 11.5% in the year to March, the fastest for 20 years. However, factory-gate prices rose much more modestly, by 2.8% in the 12 months to March. There were signs of inflationary pressure in the labour market. Average earnings in the three months to February rose by 4.7% on the same period a year before, up from 4.4% in the three months to January.

Britain's trade deficit in goods and services narrowed to £3.3 billion in February from a revised £3.5 billion in January. The trade gap in goods fell to £4.8 billion from £5.1 billion.

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About sponsorship

Output, demand and jobs

Apr 14th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.5	Q4	+ 0.6	+ 2.6	+ 3.2	+ 4.2	Q3	+ 2.2	Q4	5.1	Mar	5.6
Austria	+ 2.1	Q4	+ 1.1	+ 2.1	+ 2.1	+ 8.8	Jan	– 1.2	Jan	4.6	Mar	4.5
Belgium	+ 2.6	Q4	+ 1.6	+ 2.1	+ 2.2	– 1.0	Feb	– 4.2	Jan	12.6	Mar†	12.7
Britain	+ 2.9	Q4	+ 2.9	+ 2.5	+ 2.2	– 0.1	Feb	+ 3.6	Feb	4.8	Feb††	4.8
Canada	+ 3.0	Q4	+ 1.7	+ 2.7	+ 3.0	+ 3.7	Jan	+ 6.5	Jan	6.9	Mar	7.3
Denmark	+ 2.9	Q4	+ 3.2	+ 2.1	+ 2.2	– 4.9	Feb	+ 6.3	Feb	5.9	Feb	6.6
France	+ 2.4	Q4	+ 3.5	+ 2.0	+ 2.1	+ 1.2	Feb	+ 2.1	Feb	10.1	Feb	9.8
Germany	+ 1.5	Q4	– 0.9	+ 0.9	+ 1.5	+ 1.5	Feb	– 1.1	Jan	12.0	Mar§	10.4
Italy	+ 0.8	Q4	– 1.7	+ 1.0	+ 1.5	– 2.5	Feb	– 3.1	Jan	8.0	Dec	8.2
Japan	+ 0.8	Q4	+ 0.5	+ 1.1	+ 1.9	+ 0.5	Feb	+ 1.2	Feb	4.7	Feb	5.0
Netherlands	+ 1.6	Q4	+ 0.1	+ 1.1	+ 1.7	+ 0.1	Feb	– 2.1	Jan	6.5	Feb**	6.1
Spain	+ 2.7	Q4	+ 3.4	+ 2.7	+ 2.6	– 0.7	Feb	+ 2.4	Feb	10.3	Feb	11.1
Sweden	+ 2.0	Q4	+ 1.4	+ 2.7	+ 2.7	+ 2.9	Feb	+ 4.3	Feb	5.7	Feb†	6.0
Switzerland	+ 1.2	Q4	– 0.3	+ 1.3	+ 1.8	+ 4.7	Q4	– 3.0	Feb	3.9	Mar†	4.1
United States	+ 3.9	Q4	+ 3.8	+ 3.7	+ 3.2	+ 3.5	Feb	+ 5.3	Feb	5.2	Mar	5.7
Euro area	+ 1.8	Q4	+ 0.8	+ 1.5	+ 1.9	+ 2.2	Jan	+ 1.0	Feb	8.9	Feb	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.6	Q4	+ 2.5	na	na	– 0.7	Feb	+ 4.8	Jan	9.2	Feb†	9.0
Greece	+ 4.2	Q4	na	na	na	– 1.5	Feb	+ 2.0	Dec	10.5	Jun	9.6
Iceland	+ 3.8	Q4	na	na	na	na		na		3.0	Jan†	3.7
Ireland	+ 2.8	Q4	nil	na	na	– 5.7	Feb	+ 5.3	Jan	4.3	Mar	4.6
Luxembourg	+ 2.1	2003	na	na	na	+ 1.8	Jan	– 2.6	Feb	4.7	Feb	4.3
New Zealand	+ 3.6	Q4	+ 2.4	na	na	+ 3.5	Q4	+ 6.8	Q4	3.6	Q4	4.5
Norway	+ 3.2	Q4	+ 6.1	na	na	– 2.0	Feb	+ 5.9	Feb	3.7	Mar‡	3.9
Portugal	+ 0.6	Q4	– 1.1	na	na	+ 0.7	Feb	+ 3.7	Feb	7.1	Q4†	6.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Dec-Feb; claimant count rate 2.7% in Mar.
§EU harmonised rate 9.7% in Feb. **Dec-Feb.

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About sponsorship

Prices and wages

Apr 14th 2005
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2005	2006	latest		year ago	latest		year ago
Australia	+ 2.6	Q4	+ 2.4	+ 2.6	+ 2.7	+ 8.2	Q4	– 1.1	+ 3.0	Q4	+ 6.0
Austria	+ 2.8	Feb	+ 1.4	+ 2.0	+ 1.6	+ 4.0	Mar	+ 3.0	+ 2.1	Feb	+ 2.2
Belgium	+ 3.1	Mar	+ 1.1	+ 1.9	+ 1.7	– 1.1	Feb	+ 2.4	+ 2.3	Jan	+ 1.9
Britain	+ 1.6	Feb*	+ 1.3	+ 1.8	+ 1.8	+ 2.8	Mar	+ 1.4	+ 4.7	Feb†	+ 4.9
Canada	+ 2.1	Feb	+ 0.7	+ 1.9	+ 2.1	+ 2.3	Feb	– 1.9	+ 1.8	Jan	+ 4.3
Denmark	+ 1.4	Mar	+ 0.7	+ 1.5	+ 1.8	+ 3.5	Feb	– 0.1	+ 2.8	Q4	+ 3.5
France	+ 1.9	Mar	+ 1.7	+ 1.6	+ 1.6	+ 3.1	Feb	nil	+ 3.0	Q4	+ 2.7
Germany	+ 1.8	Mar	+ 1.1	+ 1.3	+ 1.1	+ 3.3	Mar	+ 1.0	+ 1.2	Jan	+ 1.9
Italy	+ 1.9	Mar	+ 2.3	+ 1.9	+ 1.9	+ 4.7	Feb	+ 0.1	+ 3.4	Feb	+ 2.8
Japan	– 0.3	Feb	nil	nil	+ 0.3	+ 1.4	Mar	+ 0.2	– 0.1	Feb	+ 2.0
Netherlands	+ 1.8	Mar	+ 1.1	+ 1.3	+ 1.4	+ 5.5	Feb	– 1.6	+ 0.9	Mar	+ 1.7
Spain	+ 3.4	Mar	+ 2.1	+ 2.8	+ 2.6	+ 4.9	Feb	+ 0.7	+ 2.6	Q4	+ 3.3
Sweden	+ 0.1	Mar	– 0.1	+ 0.7	+ 1.5	+ 2.8	Feb	– 2.3	+ 2.0	Dec	+ 2.8
Switzerland	+ 1.4	Mar	– 0.1	+ 1.1	+ 1.2	+ 1.7	Feb	– 0.1	+ 1.4	2003	+ 1.8
United States	+ 3.0	Feb	+ 1.7	+ 2.6	+ 2.5	+ 4.7	Feb	+ 2.0	+ 2.6	Mar	+ 1.8
Euro area	+ 2.1	Mar	+ 1.7	+ 1.8	+ 1.6	+ 4.2	Feb	nil	+ 2.2	Q4	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.0	Mar	– 0.6	na	na	+ 2.2	Feb	– 1.7	+ 3.0	Q4	+ 4.2
Greece	+ 2.9	Mar	+ 2.7	na	na	+ 3.3	Jan	+ 1.5	na		na
Iceland	+ 4.3	Apr	+ 2.2	na	na	+ 7.0	Mar	+ 2.6	+ 6.7	Feb	+ 3.3
Ireland	+ 2.1	Mar	+ 1.3	na	na	– 0.4	Feb	– 6.6	+ 5.1	Q4	+ 4.5
Luxembourg	+ 2.4	Mar	+ 1.8	na	na	+18.2	Jan	– 0.2	nil	Jan	+ 2.6
New Zealand	+ 2.7	Q4	+ 1.6	na	na	+ 3.4	Q4	– 0.1	+ 2.5	Q4	+ 2.3
Norway	+ 1.0	Mar	– 0.6	na	na	+17.5	Mar	+ 3.3	+ 3.9	Q4	+ 3.9
Portugal	+ 2.2	Feb	+ 2.1	na	na	+ 4.0	Feb	– 0.5	– 0.9	Feb	+ 0.8

* RPI inflation rate 3.2% in Feb. †Dec-Feb.

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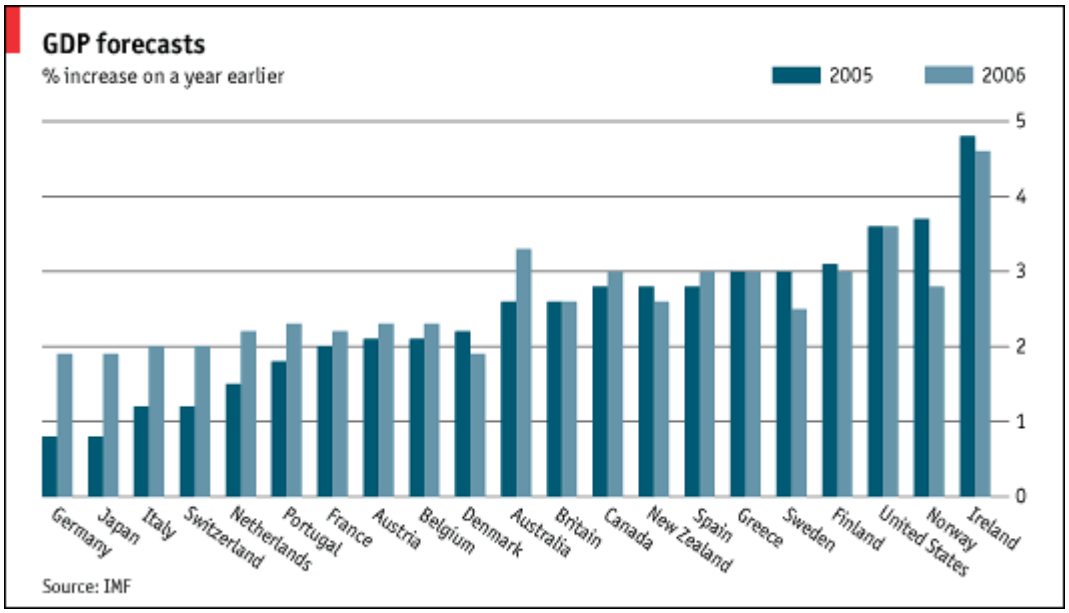
GDP forecasts

Apr 14th 2005
From The Economist print edition



According to the IMF's World Economic Outlook, the global economy will grow by 4.3% this year. The Fund is quite sanguine about America's prospects, and it foresees no hard landing for China. But the IMF has dramatically lowered its sights for Japan. In September, it forecast growth of 2.3% this year; now, it foresees growth of just 0.8%. The outlook for the euro area, particularly Italy, has also clouded since September.

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Money and interest rates

Apr 14th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Apr 13th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 2.0	+ 8.9	Feb	5.74	5.53	5.38	5.49	5.92	6.39
Britain	+ 5.9	+ 9.3	Feb	4.81	4.31	4.58	4.66	4.98	5.22
Canada	+13.7	+11.1	Feb	2.48	1.98	3.11	4.27	4.65	5.66
Denmark	+13.8	+10.3	Feb	2.20	2.11	2.32	3.56	4.30	5.02
Japan	+ 4.5	+ 2.1	Mar	0.02	0.02	0.09	1.34	1.53	1.40
Sweden	+ 2.5	+ 4.3	Feb	1.98	2.01	2.48	3.58	4.54	3.35‡
Switzerland	– 5.5	+ 1.4	Feb	0.76	0.28	1.02	2.17	2.66	2.05
United States	+ 4.1	+ 5.5	Feb	2.97	1.03	3.66	4.37	4.38	5.32
Euro area†	+ 9.9	+ 6.4	Feb	2.14	2.05	2.39	3.48	4.12	3.89

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. Benchmarks: US 30-year 4.70%, Japan No. 269 1.35%. Central bank rates: US fed funds 2.75%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Apr 14th 2005
From The Economist print edition

2000=100

	Apr 5th	Apr 12th*	% change on one month	% change on one year
Dollar index				
All items	133.5	134.7	– 4.9	– 3.0
Food	126.7	126.1	– 8.6	–11.0
Industrials				
All	142.4	145.8	– 0.4	+ 7.8
Nfa†	129.2	129.6	– 2.4	– 9.7
Metals	149.4	154.7	+ 0.5	+18.3
Sterling index				
All items	107.8	108.3	– 3.4	– 6.7
Euro index				
All items	96.2	96.7	– 1.7	–10.4
Yen index				
All items	134.3	135.3	– 1.3	– 1.7
Gold				
$ per oz	424.95	427.30	– 3.0	+ 4.7
West Texas Intermediate				
$ per barrel	55.85	51.66	– 6.0	+39.1

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

Apr 14th 2005
From The Economist print edition

Market indices

	Apr 13th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,115.0	4,255.8	4,033.3	+ 0.2	– 3.3	+ 1.5	+ 0.7
Austria (ATX)	2,730.3	2,781.6	2,415.0	+ 0.9	– 1.8	+12.3	+ 6.6
Belgium (Bel 20)	3,197.3	3,197.3	2,958.8	+ 0.7	–13.2	+ 9.0	+ 3.5
Britain (FTSE 100)	4,960.8	5,060.8	4,783.6	+ 0.3	–28.4	+ 3.0	+ 1.6
Canada (Toronto Composite)	9,492.1	9,927.2	9,006.2	– 1.9	–16.7	+ 2.7	– 0.6
Denmark (KBX)	294.2	294.6	257.8	+ 0.6	– 2.5	+14.1	+ 8.1
France (SBF 250)	2,851.9	2,855.6	2,633.6	+ 0.3	–35.0	+ 8.3	+ 2.7
(CAC 40)	4,116.9	4,124.4	3,816.1	+ 0.2	–40.5	+ 7.7	+ 2.2
Germany (DAX)	4,405.7	4,428.1	4,201.8	+ 0.6	–45.4	+ 3.5	– 1.8
Italy (S&P/MIB)*	32,698.0	32,856.0	30,645.0	+ 0.6	–34.7	+ 5.8	+ 0.4
Japan (Nikkei 225)	11,637.5	11,966.7	11,238.4	– 1.6	–70.1	+ 1.3	– 3.3
(Topix)	1,176.4	1,203.3	1,132.2	– 1.7	–59.2	+ 2.3	– 2.3
Netherlands (AEX)	370.7	379.8	350.1	– 0.1	–47.2	+ 6.5	+ 1.1
Spain (Madrid SE)	1,007.5	1,025.8	950.9	nil	–12.1	+ 5.1	– 0.3
Sweden (Affarsvarlden Gen)	239.6	239.6	218.9	+ 0.5	–40.1	+ 8.3	+ 1.5
Switzerland (Swiss Market)	6,012.3	6,023.7	5,669.6	+ 0.2	–28.5	+ 5.6	– 0.1
United States (DJIA)	10,403.9	10,940.6	10,368.6	– 0.8	–11.3	– 3.5	– 3.5
(S&P 500)	1,173.8	1,225.3	1,163.8	– 0.9	–23.2	– 3.1	– 3.1
(NASDAQ Comp)	1,974.4	2,152.2	1,973.9	– 1.2	–60.9	– 9.2	– 9.2
Europe (FTSEurofirst 300)†	1,101.8	1,107.6	1,038.6	+ 0.3	–35.4	+ 5.8	+ 0.4
Euro area (FTSE Euro 100)†	943.7	952.4	894.4	+ 0.1	–39.1	+ 4.7	– 0.6
World (MSCI)‡	1,149.5	1,193.0	1,128.2	– 0.3	–20.7	– 1.7	– 1.7
World bond market (Citigroup)††	648.6	662.3	642.6	+ 0.9	– 2.1	– 2.6	– 2.6

*New index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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About sponsorship

Trade, exchange rates and budgets

Apr 14th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		Current-account balance The Economist poll % of GDP, forecast 2005	Current-account balance The Economist poll % of GDP, forecast 2006	Exchange rate trade-weighted† 2000=100 Apr 13th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Apr 13th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 18.1	Feb	− 39.4	Q4	− 5.7	− 5.1	116.4	114.1	1.29	1.37	2.43	1.66	1.20	+ 0.7
Austria	+ 0.1	Jan	− 1.4	Jan	− 0.6	− 0.8	105.8§	105.5	0.78	0.84	1.47	–	0.72	− 1.5
Belgium	+ 18.4	Jan	+ 12.4	Dec	+ 3.3	+ 3.3	107.7§	107.2	0.78	0.84	1.47	–	0.72	− 0.1
Britain	−107.3	Feb	− 49.0	Q4	− 2.7	− 2.7	100.9††	100.9	0.53	0.56	–	0.68	0.49	− 3.2
Canada	+ 50.9	Feb	+ 23.4	Q4	+ 1.7	+ 1.5	115.7	107.3	1.24	1.35	2.34	1.60	1.15	+ 1.1
Denmark	+ 9.4	Feb	+ 7.2	Feb	+ 2.2	+ 2.1	106.4	105.4	5.78	6.24	10.9	7.45	5.38	+ 0.9
France	− 15.2	Feb	− 10.3	Jan	− 0.2	− 0.1	108.6§	108.0	0.78	0.84	1.47	–	0.72	− 3.7
Germany	+198.3	Feb	+107.5	Feb	+ 3.1	+ 3.0	110.2§	109.6	0.78	0.84	1.47	–	0.72	− 3.9
Italy	− 1.1	Jan	− 16.7	Jan	− 1.0	− 1.0	108.1§	107.6	0.78	0.84	1.47	–	0.72	− 2.9
Japan	+125.6	Feb	+169.5	Feb	+ 3.5	+ 3.6	87.0	89.2	107	108	203	138	–	− 6.5
Netherlands	+ 36.8	Jan	+ 24.1	Q4	+ 3.3	+ 3.3	108.5§	108.0	0.78	0.84	1.47	–	0.72	− 2.9
Spain	− 78.0	Jan	− 49.3	Dec	− 4.5	− 4.5	106.0§	105.6	0.78	0.84	1.47	–	0.72	− 1.1
Sweden	+ 22.8	Feb	+ 28.0	Q4	+ 6.8	+ 6.3	99.1	97.3	7.09	7.71	13.4	9.15	6.61	+ 0.5
Switzerland	+ 7.3	Feb	+ 40.8	Q4	+11.5	+11.5	107.2	106.0	1.20	1.30	2.28	1.55	1.12	− 1.6
United States	−693.1	Feb	−665.9	Q4	− 6.1	− 5.9	83.1	88.1	–	–	1.89	1.29	0.93	− 4.4
Euro area	+ 86.4	Jan	+ 46.1	Jan	+ 0.5	+ 0.5	118.0	113.8	0.78	0.84	1.47	–	0.72	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.3	Jan	+ 8.5	Feb	na	na	109.2§	108.9	0.78	0.84	1.47	–	0.72	+ 2.3
Greece	− 32.1	Jan	− 11.5	Jan	na	na	104.9§	104.6	0.78	0.84	1.47	–	0.72	− 5.3
Iceland	− 0.6	Feb	− 1.0	Q4	na	na	98.1**	90.2	63.0	73.5	119	81.3	58.7	+ 0.1
Ireland	+ 42.0	Jan	− 0.8	Q4	na	na	114.2§	113.1	0.78	0.84	1.47	–	0.72	+ 0.2
Luxembourg	− 4.6	Jan	+ 2.9	Q4	na	na	107.7§	107.2	0.78	0.84	1.47	–	0.72	− 0.4
New Zealand	− 2.8	Feb	− 6.2	Q4	na	na	137.4	124.4	1.38	1.58	2.61	1.78	1.29	+ 2.9
Norway	+ 35.1	Feb	+ 34.4	Dec	na	na	100.1	104.5	6.37	6.94	12.1	8.22	5.93	+ 8.2
Portugal	− 19.2	Jan	− 13.6	Jan	na	na	105.8**	106.1	0.78	0.84	1.47	–	0.72	− 2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, February average. ‡OECD estimate. ††New series.
**IMF, December average

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Stockmarket concentration

Apr 14th 2005
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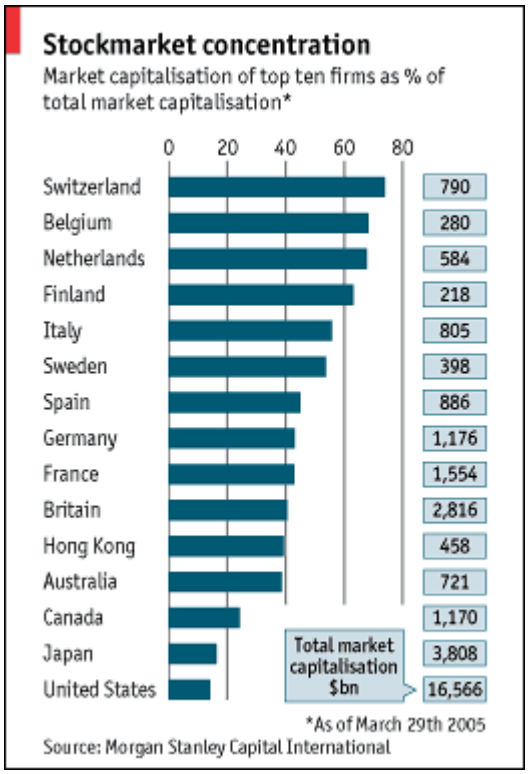

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Overview

Apr 14th 2005
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China's trade surplus rose to $5.7 billion in March, from $4.6 billion in February.

Consumer prices rose by 7.5% in **Brazil** in the 12 months to March. Brazil's central bank meets on April 20th to consider its stance on interest rates.

Singapore's economy shrank by 5.8% at an annualised rate in the first quarter, thanks to a drop in biomedical manufacturing output.

Industrial production in **Turkey** rose by 14.9% in the year to February.

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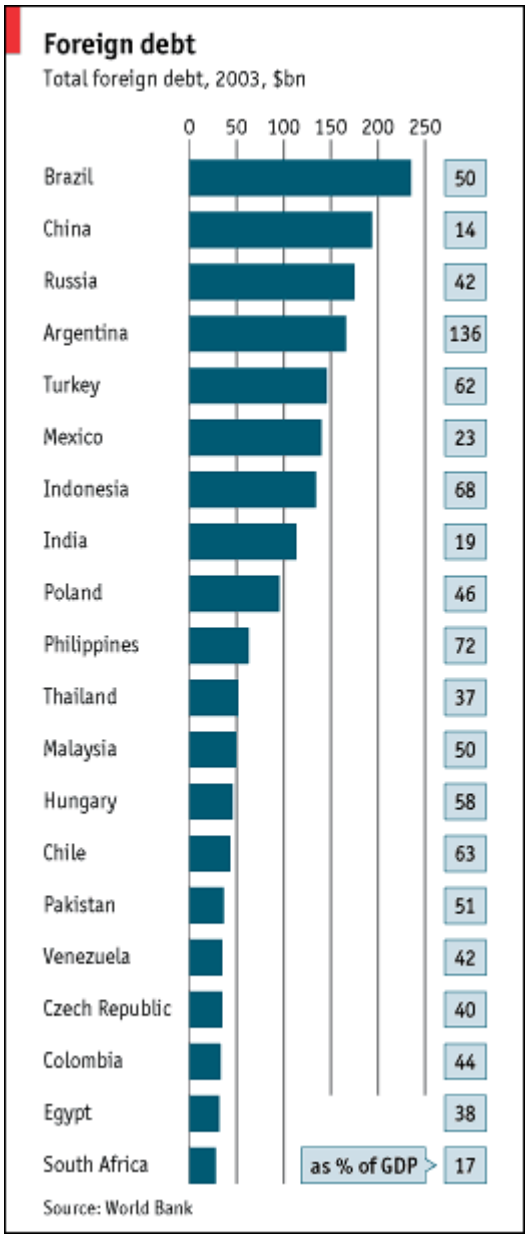
Foreign debt

Apr 14th 2005
From The Economist print edition

The foreign-debt burden of poor countries overall has eased since the mid-1990s, the World Bank reports. But this masks a sharp rise in some countries. Brazil's foreign indebtedness doubled to 50% of GDP from 1997 to 2003; Argentina's tripled over the same period. Meanwhile, Thailand has halved its foreign-debt burden, which was 75% of GDP at the height of the Asian crisis.



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Economy

Apr 14th 2005
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q4	+ 8.9	Jan	+ 3.9	Feb	+57.3	Mar	+45.9	2003	609.9	Dec
Hong Kong	+ 7.1	Q4	+ 5.0	Q4	+ 0.8	Feb	−11.2	Feb	+16.0	Q4	122.4	Mar
India	+ 6.2	Q4	+ 4.9	Feb	+ 4.2	Feb	−25.0	Feb	− 3.9	Q4	135.3	Mar
Indonesia	+ 6.7	Q4	− 5.7	Jan	+ 8.8	Mar	+26.7	Feb	+ 2.9	Q4	35.2	Feb
Malaysia	+ 5.6	Q4	+ 8.5	Feb	+ 2.4	Feb	+21.9	Feb	+15.1	Q4	71.0	Feb
Philippines	+ 5.4	Q4	+ 5.5	Jan	+ 8.5	Mar†	− 0.2	Jan	+ 2.1	Dec	13.8	Mar
Singapore	+ 2.4	Q1	−10.2	Feb	nil	Feb	+15.6	Feb	+27.9	Q4	112.9	Mar
South Korea	+ 3.3	Q4	− 7.3	Feb	+ 3.1	Mar	+29.7	Mar	+27.3	Feb	202.1	Feb
Taiwan	+ 3.3	Q4	−13.3	Feb	+ 2.3	Mar	+ 4.5	Mar	+19.0	Q4	251.1	Mar
Thailand	+ 5.1	Q4	− 1.8	Feb	+ 3.2	Mar	− 0.9	Feb	+ 4.5	Mar	48.5	Feb
Argentina	+ 8.4	Q4	+ 4.8	Feb	+ 9.1	Mar	+12.0	Feb	+ 3.0	Q4	20.0	Feb
Brazil	+ 4.9	Q4	+ 4.4	Feb	+ 7.5	Mar	+35.9	Mar	+11.7	Feb	58.5	Feb
Chile	+ 7.3	Q4	+ 3.5	Feb	+ 2.4	Mar	+ 9.0	Mar	+ 1.4	Q4	15.4	Mar
Colombia	+ 4.3	Q4	+ 2.0	Jan	+ 5.0	Mar	+ 0.9	Dec	− 1.1	Q4	12.6	Mar
Mexico	+ 4.9	Q4	+ 2.0	Feb	+ 4.4	Mar	− 9.5	Jan	− 8.7	Q4	64.0	Feb
Peru	+ 5.2	Jan	+ 3.3	Jan	+ 1.9	Mar	+ 3.0	Feb	− 0.1	Q4	13.6	Mar
Venezuela	+11.2	Q4	+ 8.9	Jan	+15.8	Mar	+22.1	Q4	+14.6	Q4	18.4	Dec
Egypt	+ 4.7	Q4	+ 3.3	2004‡	+ 9.5	Jan	− 9.0	Q4	+ 4.3	Q4	15.7	Feb
Israel	+ 4.8	Q4	+ 6.4	Jan	+ 0.8	Feb	− 7.0	Mar	+ 0.5	Q4	27.1	Feb
South Africa	+ 4.7	Q4	+ 7.8	Dec	+ 2.6	Feb	− 2.6	Feb	− 7.0	Q4	14.2	Mar
Czech Republic	+ 4.3	Q4	+ 5.6	Feb	+ 1.5	Mar	− 0.7	Feb	− 5.6	Q4	27.5	Mar
Hungary	+ 3.8	Q4	+ 1.6	Feb	+ 3.5	Mar	− 2.9	Q4	− 8.8	Q4	17.3	Mar
Poland	+ 3.9	Q4	+ 2.1	Feb	+ 3.6	Feb	− 5.0	Jan	− 3.6	Jan	41.1	Feb
Russia	+ 6.7	Q4	+ 5.1	Feb	+12.8	Feb	+93.3	Feb	+60.1	Q4	133.7	Mar
Turkey	+ 6.3	Q4	+14.9	Feb	+ 7.9	Mar	−35.4	Feb	−16.4	Feb	36.7	Feb
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+ 6.8	Feb	+ 5.0	Mar	− 2.5	Jan	− 1.4	Q4	1.6	Feb
Latvia	+ 8.6	Q4	+ 1.3	Feb	+ 6.4	Mar	− 2.8	Feb	− 1.7	Feb	2.0	Feb
Lithuania	+ 6.7	Q4	na		+ 3.2	Mar	− 3.0	Feb	− 1.6	Q4	3.6	Feb
Slovakia	+ 5.8	Q4	nil	Feb	+ 2.5	Mar	− 1.6	Feb	− 1.5	Dec	16.7	Feb
Slovenia	+ 4.3	Q4	+ 0.5	Feb	+ 3.1	Mar	− 1.6	Feb	− 0.3	Feb	8.6	Jan
Pakistan	+ 6.4	2004‡	+28.3	Nov	+10.2	Mar	− 6.0	Mar	− 0.9	Q4	10.5	Feb
Saudi Arabia	+ 7.2	2003	na		+ 0.8	Jan	+59.1	2003	+28.0	2003	24.7	Jan

*Excluding gold, except Singapore; IMF definition. †New series ‡Year ending June, new series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Apr 14th 2005
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Apr 13th		Dec 31st 2004	
	Apr 13th	year ago	Apr 13th	% a year		one week	in local currency	in $ terms
China	8.28	8.28	15.7	2.90	1,309.4	+2.8	– 1.6	– 1.6
Hong Kong	7.80	7.80	14.8	2.65	13,799.6	+1.8	– 3.0	– 3.4
India	43.7	43.8	82.7	5.31	6,467.9	–2.1	– 2.0	– 2.6
Indonesia	9,483	8,604	17,943	7.66	1,116.7	+1.2	+ 11.6	+ 9.3
Malaysia	3.80	3.80	7.19	2.82	874.2	+1.4	– 3.7	– 3.7
Philippines	54.1	55.9	102.3	5.75	1,916.6	–2.3	+ 5.1	+ 9.1
Singapore	1.64	1.68	3.11	2.02	2,174.1	+0.4	+ 5.2	+ 4.4
South Korea	1,012	1,158	1,914	3.54	981.3	–0.7	+ 9.5	+ 12.1
Taiwan	31.4	32.8	59.5	1.40	5,998.1	–0.3	– 2.3	– 1.5
Thailand	39.5	39.4	74.7	2.60	698.3	+2.4	+ 4.5	+ 2.8
Argentina	2.88	2.82	5.45	4.69	1,344.6	–5.5	– 2.2	+ 0.9
Brazil	2.56	2.90	4.84	19.24	26,066.0	+1.5	– 0.5	+ 3.2
Chile	572	604	1,083	3.24	9,458.6	+0.8	+ 5.5	+ 2.5
Colombia	2,329	2,626	4,407	7.32	4,819.8	+1.9	+ 10.9	+ 12.0
Mexico	11.1	11.3	20.9	9.59	12,424.4	+2.1	– 3.8	– 3.1
Peru	3.26	3.47	6.17	3.09	4,075.9	–0.5	+ 9.9	+ 10.5
Venezuela	2,755§	3,180§	5,213	11.39	26,958.4	–4.1	– 10.0	– 15.8
Egypt	5.80	6.21	10.97	10.58**	34,728.6	–1.4	+ 41.3	+ 47.8
Israel	4.38	4.53	8.29	1.00	680.6	+1.8	+ 5.7	+ 4.2
South Africa	6.12	6.63	11.6	7.70	13,019.8	–1.7	+ 2.9	– 5.3
Czech Republic	23.1	27.0	43.8	2.05	1,199.9	+1.2	+ 16.3	+ 12.2
Hungary	191	211	361	7.63	17,480.5	–0.9	+ 18.6	+ 12.4
Poland	3.16	3.99	5.99	5.88	27,311.2	–1.0	+ 2.5	– 3.0
Russia	27.8	28.6	52.6	13.00	705.8‡	–0.4	+ 15.4	+ 14.9
Turkey	1.34	1.37	2.54	16.74	25,293.2	–2.9	+ 1.3	+ 1.9
EMF (MSCI)*	1.00	1.00	1.89	na	554.6	+0.2	+ 2.3	+ 2.3
EMBI+†	1.00	1.00	1.89	na	330.7	+0.8	+ 0.4	+ 0.4

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New series.

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